2007 2008 BUDGET

MAY 2007

BUDGET PLAN

Québec

2007 2008 | BUDGET

MAY 2007

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May 24, 2007

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Budget Plan

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Section A

Overview

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OVERVIEW

This section provides a summary of the economic outlook and financial framework underpinning the 2007-2008 Budget.

Québec's economy is healthy

The Québec economy has grown well since 2003 despite the challenging international context in which it now operates. In particular:

— Between 2002 and 2006, the Canadian dollar rose substantially, from 63.7 to 88.2 US cents, depriving our industries involved in international trade of a major competitive advantage.

— Québec firms are faced with growing competition in their markets, particularly in the United States, from new economic powers such as China and India.

Real gross domestic product (GDP) grew 2% per year, on average, in the last four years, a rate comparable with that observed in the last 25 years.

Québec's solid economic performance is due to household demand and business investment, which have remained high and thus sustained employment and tax receipts.

— In 2007, stimulated by the tax cuts made by the Québec government, growth in real household personal spending is expected to stay above 3% for the sixth year in a row, a situation not seen since the late 1980s.

— In addition, new residential construction will remain high, far surpassing the levels observed in the late 1990s. Housing starts are expected to amount to an average of nearly 40 000 units over the next two years.

— Benefiting from a favourable economic climate, Québec businesses have boosted their investment by 33% since 2003. This robust growth has been sustained by the Québec government's elimination of the tax on capital for SMEs and its launching of a plan to eliminate the tax on capital for other businesses by 2011.

— Nearly 200 000, mostly full-time jobs have been created in the last four years. Thanks to this vigorous job growth, the unemployment rate was 7.2% in April 2007, the lowest level in over 30 years.

— Never before in the history of Québec has such a large share of the population been employed. For the third consecutive year, the employment rate surpassed 60%, reaching 60.9% in April 2007.

Since 2003, Québec has outperformed Ontario, a province with an industrial structure similar to our own:

— Québec's per capita economic growth has exceeded that of Ontario.

— Québec's household wealth and per capita disposable personal income have grown more substantially than those of Ontario.

The Québec economy will continue to expand over the next two years.

— Although Québec's real GDP growth was curbed this year by slower economic activity in the United States, it is expected to amount to 1.8% in 2007.

— With the upcoming rebound in the US economy, Québec's economy should expand 2.5% in 2008.

This robust growth will lead to the creation of over 40 000 jobs, on average, in 2007 and 2008. Accordingly, the unemployment rate should fall to 7.8% in 2008, while the employment rate should be 60.4%.

TABLE A.1

Economic outlook for Québec
(annual percentage change, except where otherwise indicated)

	2006	2007	2008
Gross domestic product	3.9	4.2	3.5
Real gross domestic product	1.7	1.8	2.5
Real consumption	3.0	3.1	2.4
Housing starts (thousands)	47.9	41.1	37.7
Real international exports	2.6	2.8	5.2
Job creation (thousands)	48.1	49.9	36.8
Unemployment rate (%)	8.0	7.8	7.8

Source: Ministère des Finances du Québec.

Disciplined management of public finances

The 2007-2008 Budget forecasts that a balanced budget will be achieved in each year of the financial framework.

— In 2006-2007, the additional profits earned by Hydro-Québec and robust tax revenues made it possible to deposit an additional $500 million in the Generations Fund and to allocate $1.3 billion to the budgetary reserve.

— In 2007-2008, the government will deposit an extra $200 million in the Generations Fund from the budgetary reserve. Use of the reserve's balance will help balance the budget in 2008-2009.

TABLE A.2

Summary of consolidated budgetary transactions – 2007-2008 Budget[P]

(millions of dollars)

	2006-2007	2007-2008	2008-2009
BUDGETARY REVENUE	**60 305**	**61 016**	**61 269**
% change	**8.2**	**1.2**	**0.4**
BUDGETARY EXPENDITURE			
Program spending	– 51 769	– 53 802	– 55 393
% change	*5.2*	*3.9*	*3.0*
Debt service	– 6 967	– 7 244	– 7 158
% change	*1.3*	*4.0*	*– 1.2*
Total	**– 58 736**	**– 61 046**	**– 62 551**
% change	**4.7**	**3.9**	**2.5**
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	**260**	**30**	**182**
Additional deposits in the Generations Fund	**– 500[1]**	**– 200**	
Allocation to the budgetary reserve	**– 1 300**		
Use of the budgetary reserve		**200**	**1 100**
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**29**	**0**	**0**
Net results of the Generations Fund	**578**	**653**	**740**
CONSOLIDATED BUDGETARY BALANCE	**607**	**653**	**740**

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Additional deposit stemming from the sale of Hydro-Québec's interest in Transelec Chile.

❑ $500 million deposited in the Generations Fund and $1.3 billion allocated to the budgetary reserve in 2006-2007

The budget forecasts a surplus of $29 million for 2006-2007. The government's budgetary position has improved since the 2006-2007 Budget, on account of the following additional contributions:

— $1.5 billion from the profits of government enterprises, due mainly to the additional profits realized by Hydro-Québec on the sale of its interests in certain enterprises;

— $714 million in tax revenues, particularly because of the strong showing by the economy;

— $219 million in federal transfers stemming from, among other things, the measures announced in the federal budget of May 2006;

— $238 million in savings on debt service owing, notably, to lower-than-anticipated interest rates.

Overall, additional revenue and savings totalling $2.7 billion have enabled the government to:

— raise program spending by $896 million in order to finance:

  — the recurrence of expenditures recorded at the close of 2005-2006, relating notably to the allowance for doubtful accounts at Revenu Québec;

  — the additional costs arising from the pay equity settlement;

  — the cost of the recent general election;

  — an increase in the envelope of the ministère de la Santé et des Services sociaux to take into account additional costs for prescription drug insurance and medical services;

  — the increase in the envelope of the ministère de la Sécurité publique, due notably to the agreement reached with the police officers of the Sûreté du Québec;

  — the increase in the envelope of the ministère de l'Emploi et de la Solidarité sociale, owing in particular to the funds allocated to forestry worker assistance.

— deposit an additional $500 million in the Generations Fund;

— allocate $1.3 billion to the budgetary reserve.

Given the above-mentioned spending increase, growth in program spending will reach 5.2% for 2006-2007.

It should be noted that if the spending increases related to the pay equity settlement and the general election are excluded, program spending growth amounts to 4.5%.

TABLE A.3

Adjustments made since the 2006-2007 Budget
(millions of dollars)

	2006-2007
SOURCE OF FUNDS	
- Tax revenues	714
- Government enterprises, primarily Hydro-Québec	1 471
- Federal transfers	219
- Debt service	238
- Consolidated organizations	83
Sub-total	**2 725**
USE OF FUNDS	
- Increase in program spending	– 896
- Deposit in the Generations Fund	– 500
- Allocation to the budgetary reserve	– 1 300
Sub-total	**– 2 696**
DIFFERENCE – BUDGETARY SURPLUS	**29**

❑ A balanced budget maintained and $200 million deposited in the Generations Fund in 2007-2008

In conformity with the government's budgetary stance, a balanced budget will be achieved again in 2007-2008. Furthermore, the government will deposit an additional $200 million in the Generations Fund from the sums allocated to the budgetary reserve in 2006-2007.

Growth in program spending in 2007-2008 will be limited to 3.9%, which is less than the increase in nominal GDP, i.e. 4.2%.

❑ Giving priority to health and education

In 2007-2008, program spending growth will reach 6.0%, an increase of $1.4 billion.

— This increase, which represents nearly two thirds of total growth in program spending, will make it possible, notably, to cover the normal increase in system costs related, for example, to wage increases, while meeting health network costs such as medication expenses, the cost of new technology and the aging of the population.

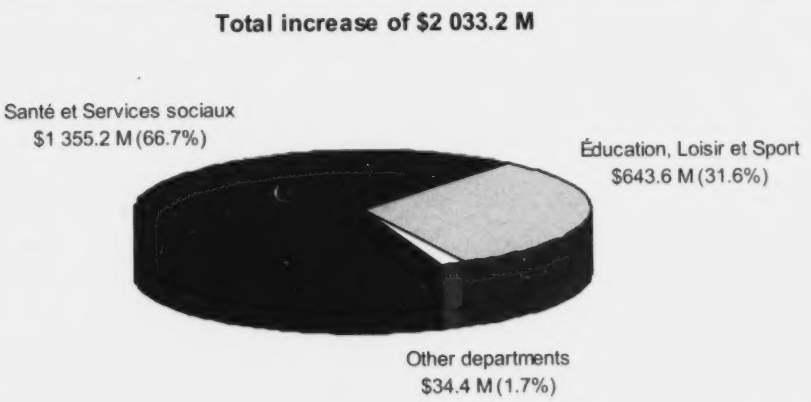
The budget of the ministère de l'Éducation, du Loisir et du Sport will also increase by a substantial 5.0%, or an additional $644 million.

— This increase will make it possible, notably, to finance wage adjustments, including the pay equity settlement and the additional investments of $120 million in post-secondary education.

The budgets of the other departments will increase by only $34 million, or 0.2%, testifying to the government's tight control of spending.

CHART A.1

Giving priority to health and education
(breakdown of program spending growth in 2007-2008F)



F: Forecasts.
Source: Secrétariat du Conseil du trésor.

❑ A balanced budget and disciplined management of spending in 2008-2009

A balanced budget will be achieved again in 2008-2009.

— The government plans to use the balance of the budgetary reserve, i.e. $1.1 billion.

— The government has set itself the objective of limiting program spending growth to 3.0%.

  – It will pursue its efforts to modernize the government and to boost productivity and efficiency in the delivery of services. It will also continue to implement its plan to reduce the number of employees in Québec's public service.

❑ Weight of spending in the economy at one of its lowest levels in 35 years

Owing to the government's disciplined management of spending, the weight of program spending in relation to GDP in 2008-2009 will be 18.1%, one of the lowest levels in 35 years.

CHART A.2

Program spending[P]
(as a percentage of GDP)

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

❑ Five-year infrastructure renewal plan

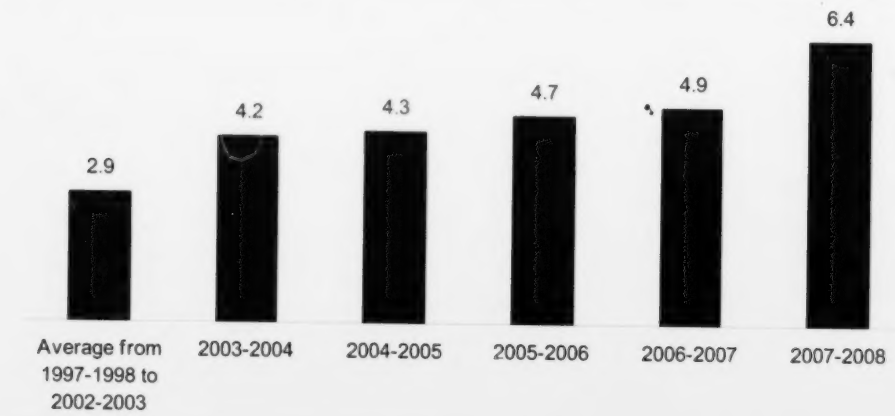
The 2007-2008 Budget provides that a general infrastructure restoration and development plan will be tabled in the fall. For the five years of the plan, the government plans to invest $30 billion, notably to restore and develop schools, hospitals, roads and public transit facilities. Two thirds of the sums invested will be used to maintain assets and correct the maintenance deficit accumulated over the past few decades.

❑ Record investments of $6.4 billion in 2007-2008

In the first year of the plan, i.e. 2007-2008, the government's total investments in infrastructure will reach a record-high $6.4 billion, 30.5% more than in 2006-2007 and more than double its average investments from 1997-1998 to 2002-2003.

CHART A.3

Capital investments
(government contribution, billions of dollars.)



❑ Acceleration in the reduction of the debt load

In addition to the revenue that goes into the Generations Fund and the extra $500 million deposited in 2006-2007, the 2007-2008 Budget provides for new contributions:

— An additional 200 million will be deposited from the budgetary reserve in 2007-2008.

— As well, the government is committed to depositing an additional $400 million per year, on average, in the Generations Fund from 2010-2011 to 2025-2026.

  — These sums will be derived from the additional profits to be earned by Hydro-Québec on its electricity exports, which will be made possible by the installation of new production capacities.

Considering these new contributions, $41.7 billion will be accumulated in the Generations Fund by 2026. This corresponds to nearly half the debt accumulated over the past 30 years to fund current spending, i.e. an estimated $91.7 billion. A major step will thus have been taken toward restoring inter-generational equity.

TABLE A.4

Sums accumulated in the Generations Fund as at March 31, 2026

(billions of dollars)

	Projected balance as at March 31, 2026
2006-2007 BUDGET[1]	**30.1**
ADDITIONAL CONTRIBUTIONS	
Additional contribution in 2006-2007	0.5
Additional contribution in 2007-2008	0.2
Additional contributions from profits on electricity exports	6.5
Sub-total	**7.2**
Investment income	4.4
TOTAL	**11.6**
2007-2008 BUDGET	**41.7**

1 Includes, in particular, revenue from unclaimed property.

Section B

The Québec Economy: Recent Developments and Outlook for 2007 and 2008

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INTRODUCTION

This section presents the economic forecasts underpinning the 2007-2008 Budget.

Economic growth should moderate this year in most regions of the world as a result of the slowdown in economic activity in the United States, which will in turn lead to less rapid expansion of trade worldwide.

Like other countries, Québec will be affected by this less favourable international environment, especially since the appreciation of the Canadian dollar in recent years and ever-growing competition from emerging economies, notably in Asia, is making it harder for our companies to export.

Despite the more challenging international context, Québec's economy will remain healthy thanks to robust domestic demand. Buoyed by government action, household demand and business investment in particular will remain high.

In short, growth in Québec's real GDP is expected to reach 1.8% in 2007 and 2.5% in 2008. This should lead to the creation of over 40 000 jobs, on average, in 2007 and 2008.

1. GLOBAL ECONOMIC SITUATION

1.1 A world economy that is losing steam

Real global GDP has risen 5% or more annually in the last three years, fuelled by the rapid growth of emerging economies such as China and the robustness of the US economy. Faced with certain challenges, the global economy is currently moving toward a slight slowdown.

— Several countries have tightened their monetary policies in recent years, generating key interest rate increases ranging from 175 basis points in the euro zone, the United Kingdom and Canada, to 425 basis points in the United States.

— Moreover, in the United States, difficulties in the residential and manufacturing sectors have moderated economic activity since the middle of 2006. This will have repercussions elsewhere in the world since the United States will reduce the growth in its purchases from its main trading partners.

Although growth in global output is still vigorous, it is expected to slow to 4.8% in 2007 and 4.6% in 2008.

TABLE B.1

Gross domestic product by region
(real percentage change)

	Weight in the global economy	2006	2007	2008
World	100.0	5.4	4.8	4.6
European Union	21.4	3.0	2.6	2.3
United States	20.0	3.3	2.0	2.6
China	14.4	10.7	10.0	9.0
Japan	6.4	2.2	2.2	1.9
Canada	1.8	2.7	2.4	2.8

Sources: International Monetary Fund, Global Insight and ministère des Finances du Québec.

❑ Slower economic growth in Asia

China's economy will remain strong despite slower economic growth in the United States, one of its major trading partners. This vitality will stem from high growth in investments and exports, which have been the engines of the Chinese economy since the start of the millennium. After growing 10.7% in 2006, China's economy is expected to remain vigorous, expanding by 10% in 2007 and 9% in 2008, despite

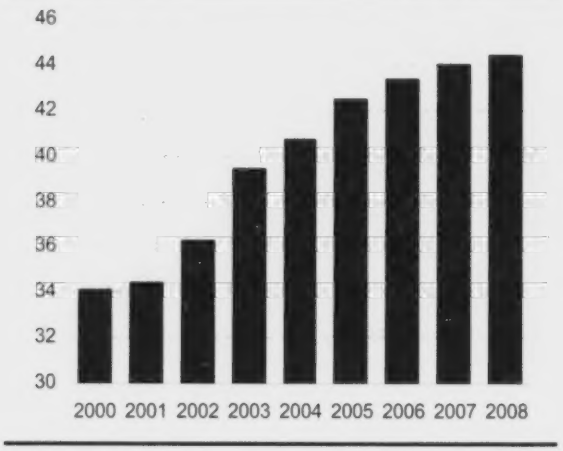
measures introduced by the Chinese authorities to curb economic growth in certain sectors that are overheating, such as real estate and steel and cement production.

In Japan, the economic rebound initiated in 2002 is expected to continue as a result of trade with China, with investment continuing to buoy the economy. Moreover, higher household confidence and the drop in the unemployment rate will boost consumption. Real GDP should therefore climb 2.2% this year and 1.9% next year, double the rates observed between 1996 and 2005.

It should be noted, however, that Japan's population is aging substantially. Between 1980 and 2005, the share of the population aged 15 to 64 declined by half in relation to that aged 65 or over. In addition to exerting pressure on public finances, this situation will limit the potential growth of consumption in the coming years.

CHART B.1

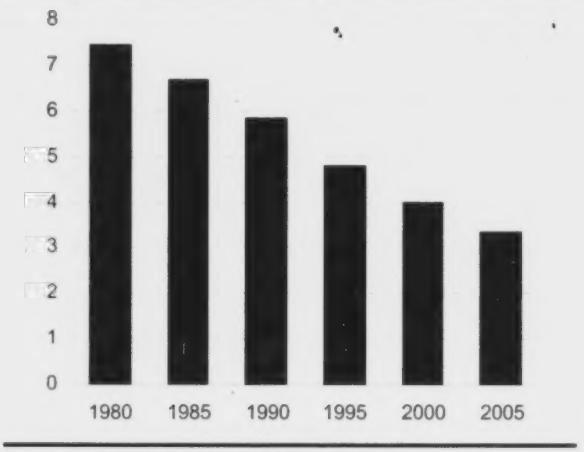
Share of business investment in China's economy
(percent)



Source: Global Insight.

Chart B.2

Number of working-age people (15-64) in Japan
(in proportion to the number of people aged 65 or over)



Source: Ministry of Foreign Affairs of Japan.

❑ More moderate expansion in Europe

The European Union's economy grew 3% in 2006, its best performance since 2000. The expansion was driven not only by business investment and household consumption but also by exports, which benefited from the robust global economy.

However, economic activity in the European Union is expected to slow to 2.6% in 2007 and 2.3% in 2008. In addition to feeling the effects of the rise of the euro, which will hurt the growth of exports, the European Union will be affected by a cooling-off of Germany's economy, which will decelerate from 2.9% in 2006 to 2.2% in 2007. This slowdown will stem mainly from the 3% increase in the country's value-added tax, which will reach 19% this year. This measure should enable Germany to balance its budget by 2010.

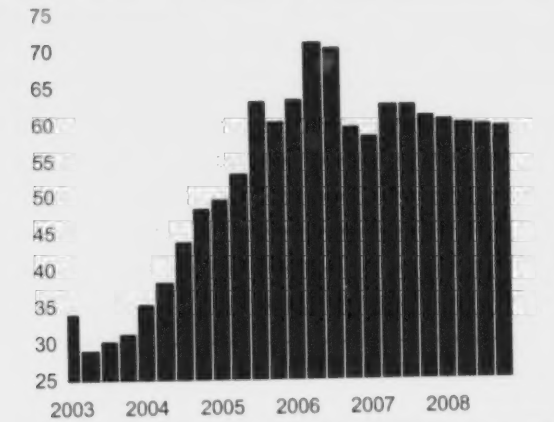
❑ The price of oil will stay close to its current level

Owing to China's rapid industrial development, the robustness of the US economy and geopolitical risks, the price of crude oil has soared in recent years, from US$26 per barrel in 2002 to a record high of over $75 per barrel in August 2006. The price has since fallen due to slower growth of the US economy. Even though geopolitical tensions persist in the Middle East, the markets believe that such tensions exert less pressure on prices.

The sharp surge in prices did not have as great an impact on the world economy this time as it did during the 1973 and 1979 oil shocks. The world economy has become less dependent on oil and less vulnerable to sudden movements in oil prices. Economic agents now consume less energy thanks to changes in consumption patterns and production methods in the wake of the oil shocks. As a result, world consumption of crude oil per GDP unit has fallen 50% in nearly 30 years.

CHART B.3

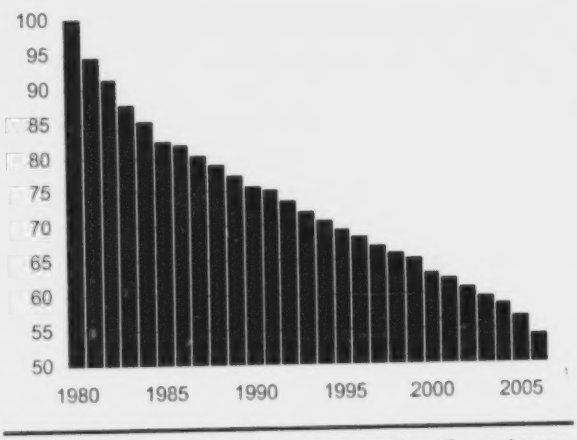
Barrel price of West Texas Intermediate oil
(US dollars)



Sources: Bloomberg and ministère des Finances du Québec.

CHART B.4

World oil consumption per GDP unit
(index 1980 = 100)



Sources: International Monetary Fund, International Energy Agency and ministère des Finances du Québec.

Over the medium term, the barrel price of oil should stay close to its current level of roughly US$60. However, certain risks persist, such as the geopolitical uncertainty created by the situation in Iran and hard-to-predict meteorological phenomena.

1.2 The correction of residential investment is dampening economic growth in the United States

After expanding robustly in 2004 and 2005, the US economy grew much more slowly as of the middle of 2006. Economic growth was moderated, notably by the sharpest correction in the residential real estate sector in 15 years. Overall, real GDP nonetheless climbed 3.3% in 2006, thanks to strong growth in the first quarter.

According to the latest economic statistics, the US economy is more fragile, with the slowing of real GDP growth in late 2006 and the deepening downturn in the real estate market.

The economic slowdown is expected to continue in 2007 owing to difficulties in the manufacturing and real estate sectors. Economic growth will pick up gradually in late 2007 and 2008, with the end of the real estate correction and its impact on the rest of the economy.

❑ Continuation of the real estate correction

The real estate correction that began in late 2005 should bottom out in 2007. Currently, the stock of houses for sale remains very high and real estate is still not very accessible for most US households despite recent declines in prices. After falling 4.2% in 2006, real residential investment should drop 16.3% in 2007 and 2.7% in 2008.

This trend will translate to job losses in the construction sector and related industries. In addition, the real estate downturn will lead to weaker growth in household personal spending.

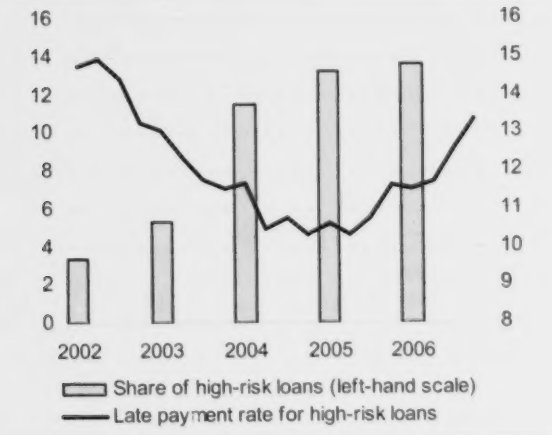
— Mortgage refinancing activities will be much more limited in 2007 and 2008 than in previous years and they will no longer sustain rapid consumption growth to the extent that they have.

— The price of real estate, which rose sharply in the past few years, declined recently, diminishing the wealth of households and obliging them to boost their savings.

— The drop in the price of real estate also highlighted the excesses of recent years in the granting of high-risk mortgage loans to households with low credit ratings. The current crisis in high-risk loans makes lower-income US consumers vulnerable and will prolong the negative impact of the real estate correction on the economy.

CHART B.5

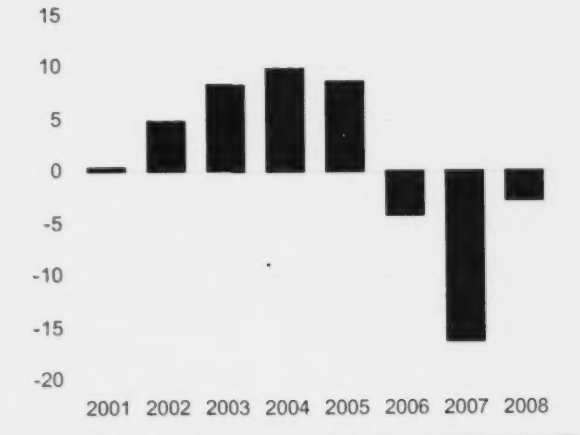
Weight of high-risk loans in the mortgage market
(percent)



Source: Mortgage Bankers Association.

CHART B.6

Residential investment
(real annual percentage change)



Sources: Global Insight and ministère des Finances du Québec.

❑ Difficulties in the manufacturing sector and slower growth in non-residential investment

Manufacturing industries involved in the production of automobiles and automobile parts as well as residential construction are faced with problems at the moment. The automobile sector is being adversely affected by the restructuring of the three main US manufacturers who would like to cut their operating costs. In addition, the construction material and equipment investment sector will be slowed by the downturn in real estate.

However, the aeronautics sector and the computer and peripheral equipment sector, following the introduction of a new generation of software, will help support growth in non-residential investment. Moreover, investment will be promoted by the significant earning power of businesses, given that before-tax corporate profits have moved up an average of 17% in the last three years.

In short, non-residential investment, which grew more than 7% last year, is expected to increase 3.8% in 2007 and 2008.

❑ Growth in personal income is sustaining consumption

Despite the negative impact of the real estate correction on the financial situation of households, real consumer spending should continue to be stimulated by the rise in personal income, stemming from:

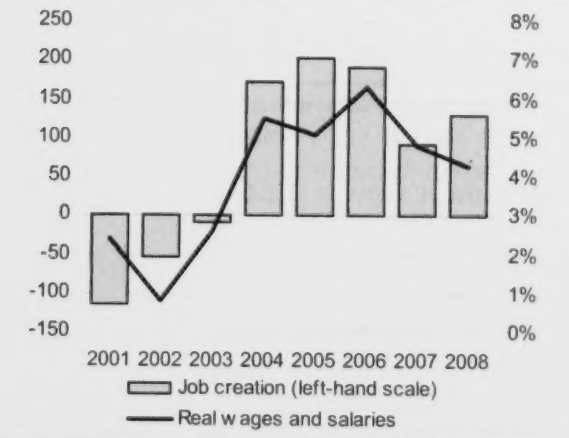
— growth in real wages and the increase in the minimum wage;

— job growth, notably in the service sector, fostered by the significant earning power of businesses, whose share of profits as a percentage of GDP has reached a record high of over 12%.

Against this backdrop, households will boost their spending while exercising caution, however. Therefore, despite an increase of 3.4% in personal income in 2007 and 3.2% in 2008, real growth in consumer spending will slow gradually, climbing 2.9% in 2007 and 2.6% in 2008.

CHART B.7

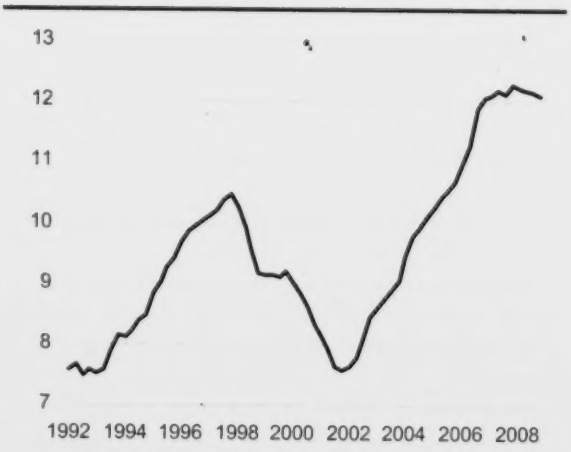
Jobs and wages in the United States
(monthly average in thousands – annual percentage change)



Sources: Global Insight and ministère des Finances du Québec.

CHART B.8

Share of corporate profits in the economy
(before-tax profits as a percentage of GDP)



Sources: Global Insight and ministère des Finances du Québec.

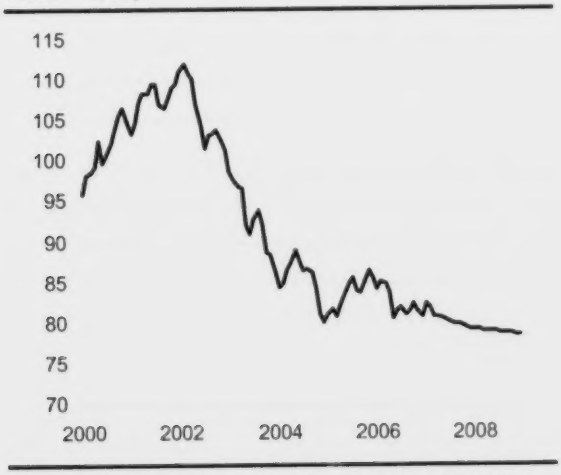
❑ Decline in US trade deficit

For the first time since 1995, the external sector will sustain the growth of the US economy. The more than 30% depreciation of the US dollar in relation to the major currencies since 2002 should stimulate exports by 2008 while limiting growth in imports. In particular, imports of motor vehicles and petroleum products will moderate. As a result, the real trade deficit will slide from US$618 billion in 2006 to US$543 billion in 2008.

The trade deficit, which has continued to climb since 1995 owing to the sharp rise in US imports, has helped spur global economic growth. It has fostered the good economic performance of exporting countries, such as Canada and China. However, the climate will be very different in 2007 and 2008, with weak growth in US imports reducing the contribution of the US economy to global economic expansion.

CHART B.9

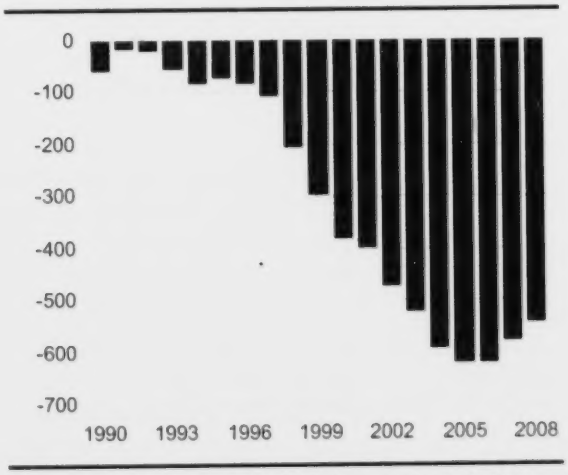
US dollar
(weighted index based on main currencies, 1973 = 100)



Sources: Global Insight and ministère des Finances du Québec.

CHART B.10

US trade balance
(billions of real US dollars)



Sources: Global Insight and ministère des Finances du Québec.

❑ Further decline in US budgetary deficit

The state of US federal government finances improved last year thanks to the strong progression of corporate profits and wages. In fact, government revenues were up 12% in 2006. Therefore, despite robust growth in government spending, the budgetary deficit, which was US$318 billion in 2005, fell to US$248 billion in 2006. The budgetary deficit is expected to continue to decline, to stand at $226 billion in 2008, a decrease fostered by the imposition of budgetary restrictions on discretionary spending, except in the defence and domestic security sectors.

❑ The US Federal Reserve is expected to adopt a less restrictive monetary policy

Faced with excess growth in the real estate sector and rising inflationary pressure, the US Federal Reserve increased the federal funds rate 425 basis points between June 2004 and June 2006, from 1% to 5.25%. Since then, the federal funds rate has remained unchanged.

However, now that inflationary pressure has eased, the US Federal Reserve is expected to cut its key interest rate to 4.50% by the end of 2007.

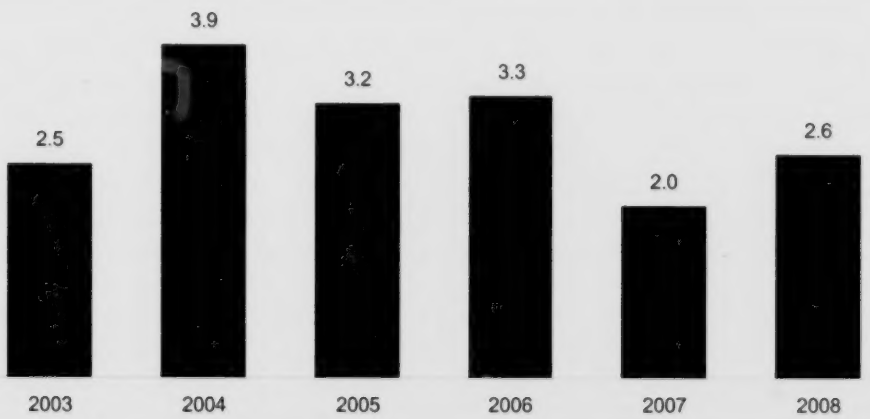
❑ Moderate recovery in economic growth in 2008

In short, US economic activity will slow to 2% in 2007, with consumption growth decelerating and the negative impact of the real estate correction reaching its peak.

Despite ongoing economic uncertainty, the exceptional earnings of US businesses are expected to foster a soft landing for the economy in 2007. It is also expected to sustain the growth of employment and non-residential investment, although at a slower pace than in previous years. Owing to the end of the real estate correction and the gradual easing of concerns related to the high-risk mortgage loans market, economic activity should pick up gradually in 2008, with real US GDP growth standing at 2.6%.

CHART B.11

US gross domestic product
(real percentage change)



Sources: Global Insight and ministère des Finances du Québec.

1.3 Disparities in economic growth among the different regions of Canada

After posting a rate of 2.7% in 2006, real Canadian GDP growth will continue at a moderate pace and is expected to reach 2.4% in 2007. The international context in which the Canadian economy operates is more challenging at the moment, notably because of the strong Canadian dollar and heightened foreign competition. In particular, it should be noted that China has doubled its presence on several of the traditional export markets of Canadian firms in the last six years.

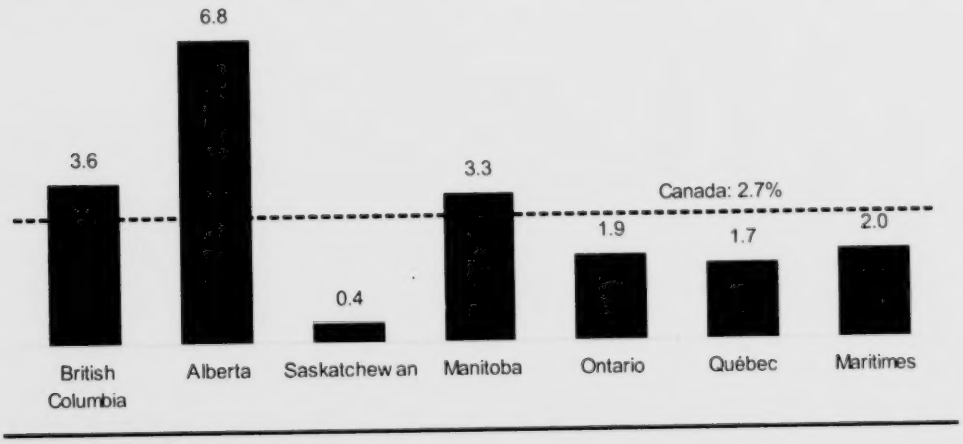
This ongoing economic growth is due mostly to robust domestic demand that translates to sound growth in household spending, business investments and government spending. In addition, due to the anticipated stabilization of the Canadian dollar at around 86 US cents and the economic rebound in the United States in 2008, exports should grow more rapidly and accelerate real Canadian GDP growth to 2.8% in 2008.

❑ A manufacturing sector faced with growing foreign competition in certain regions

Manufacturing firms, notably in Québec and Ontario, have had to adjust to a more competitive international environment and a high dollar to avoid losing market shares. They have therefore invested massively in machinery and equipment in order to boost their productivity. In addition, some businesses have carried out layoffs, and the number of manufacturing jobs fell by 170 000 between 2002 and 2006.

CHART B.12

Gross domestic product in Canada - 2006
(real percentage change)



Source: Statistics Canada.

The difficulties in the manufacturing sector in Québec and Ontario, coupled with the strong growth of the oil industry out West, have helped exacerbate regional disparities in Canada.

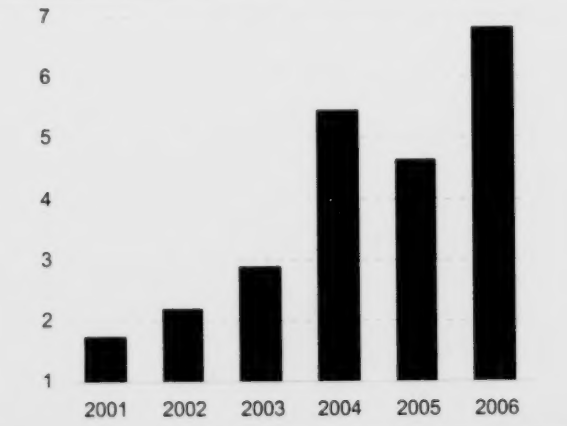
❑ Robust growth in the West thanks to oil sands development

The steep rise in oil prices since 2002 has fostered the development of Alberta's oil sands. With current technologies and economic conditions, Alberta's recoverable oil reserves are estimated at 175 billion barrels. Alberta thus boasts the second largest crude oil reserves in the world after Saudi Arabia. However, its resources are more difficult to develop because of the substantial investment required.

Technological innovations and high oil prices have increased the profitability of oil sands development projects. This situation, combined with the United States' determination to reduce its dependency on oil from the Middle East, has generated major investment in the oil industry. Over $20 billion has been invested to date in projects that are now complete, and public announcements have been made for investments of some $125 billion in projects extending until 2015. Non-conventional crude oil output, which is currently estimated at 1 million barrels per day, is expected to reach 3 million barrels per day in 2015.

CHART B.13

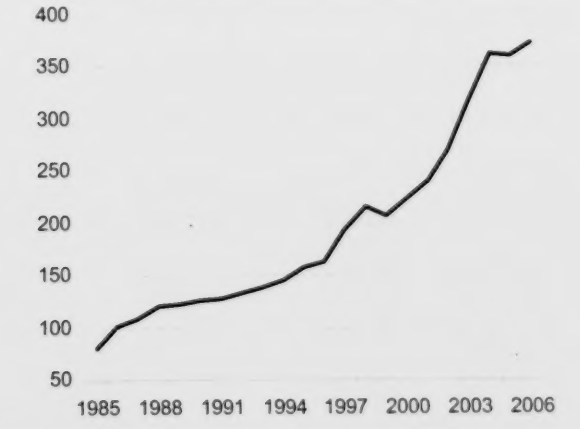
Alberta gross domestic product
(real annual percentage change)



Source: Statistics Canada.

CHART B.14

Alberta crude oil output
(non-conventional oil, millions of barrels per year)



Sources: Statistics Canada and ministère des Finances du Québec.

The robust development of natural resources generated 86 300 jobs in Alberta in 2006 and reduced unemployment to 3.4%, the lowest rate in Canada. Alberta's economic growth accelerated to 6.8% in 2006, thus highlighting regional disparities in Canada.

❑ Stable short-term interest rates

The downturn in Canada's residential real estate sector and the impact of the slowdown of the US economy on Canadian exports will reduce inflationary pressures. Moreover, upward pressure on the price of raw materials will ease as global economic growth decelerates.

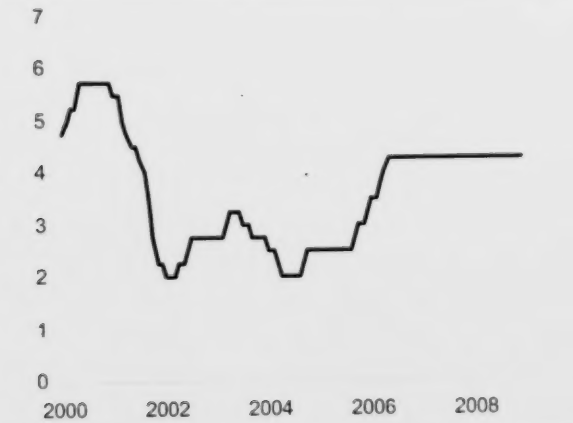
This climate should enable the Canadian economy to grow in step with its production capacity. Although the Bank of Canada's preferred measure of inflation is now over 2%, it should fall to 2% by the end of 2008.

The Bank of Canada is expected to leave its key interest rate unchanged in 2007 and 2008. It should be noted that the Bank of Canada has kept its monetary policy stable since May 2006, the target for the overnight rate currently standing at 4.25%.

In 2006, after declining for a few years, long-term interest rates began to follow an upward trend that is expected to continue for the next two years. The yield of 10-year Government of Canada bonds is expected to reach 4.3% in 2007 and 4.7% in 2008.

CHART B.15

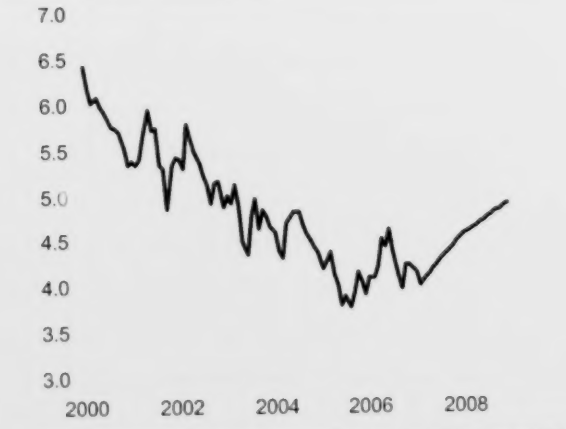
Canada's target for the overnight rate
(percent)



Sources: Bank of Canada and ministère des Finances du Québec.

CHART B.16

Yield of 10-year Government of Canada bonds
(percent)



Sources: Bank of Canada and ministère des Finances du Québec.

2. ECONOMIC SITUATION IN QUÉBEC

2.1 Solid economic growth

Québec's economic growth has been good in the past few years, amounting to 2%, on average, from 2003 to 2006. This rate is comparable to the trend observed in the last 25 years.

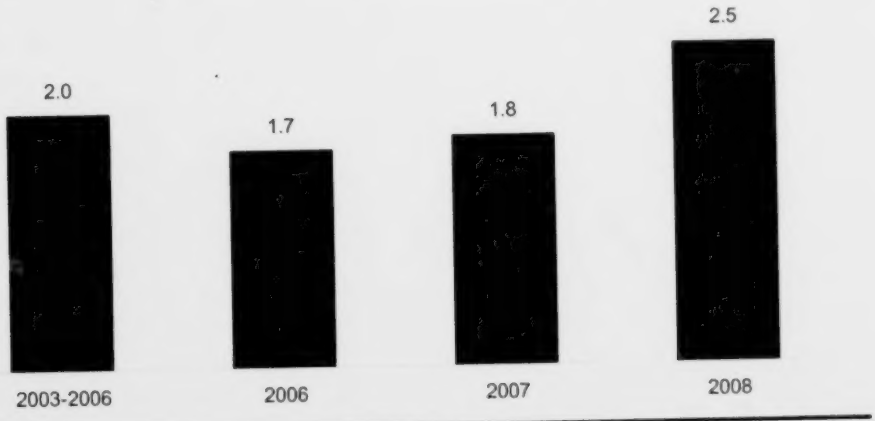
Recently, the international context has created challenges in the environment in which Québec operates. Foreign competition and the rise in the Canadian dollar have reduced the external sector's contribution to economic growth. In the last five years, the external sector, which accounts for export and import trends, has dragged real GDP growth down by an average of 1.7 percentage points.

However, domestic demand has remained strong thanks to substantial household spending and business investment. In 2007, growth in real household spending will top 3% for the sixth year in a row. This level of vitality has not been seen since the late 1980s. Generally benefiting from a favourable economic climate, Québec enterprises have boosted their real investment by 33% since 2003.

Economic growth is expected to reach 1.8% in 2007 and to accelerate to 2.5% in 2008 as the US economy rebounds. This growth will be accompanied by the creation of 49 900 jobs in 2007 and 36 800 jobs in 2008.

CHART B.17

Québec gross domestic product
(real annual percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

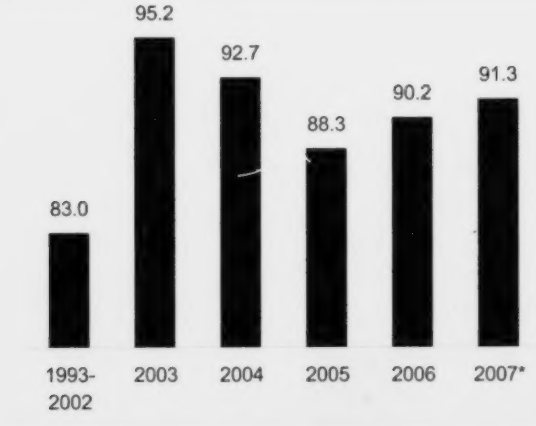
2.2 Household spending continues to support Québec's economy

In the last five years, real consumer spending grew at least 3% per year, a rate above the trend observed in the last 20 years, i.e. 2.5%. Since 1997, as the real estate sector expanded, purchases of furniture, household appliances, electronic products and computer equipment rose substantially.

Record-low interest rates, combined with the easing of credit terms, have sustained the vitality of consumption. The robust labour market, which is characterized by the creation of numerous, mostly full-time jobs, has restored the confidence of consumers and bolstered their purchasing power. In addition, thanks to the appreciation of the Canadian dollar, Québec households are benefiting from a decline in the price of imported consumer goods.

CHART B.18

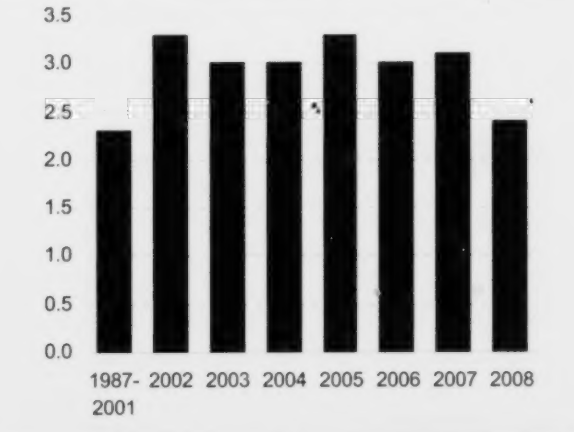
Household confidence
(index 2002 = 100)



* Average for available months.
Source: Conference Board of Canada.

CHART B.19

Household personal spending
(real annual percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

Employment gains and wage increases should continue to spur household demand. Moreover, the tax cuts made by the Québec government also help enhance the financial situation of households. Indeed, the government has eased the personal tax burden by $4.6 billion. The $1.9-billion payment in pay equity adjustment made, for the most part, in early 2007 will improve the financial situation of 360 000 government employees.

Consumption growth is expected to remain above 3% in 2007, owing to strong growth in disposable personal income (5.7%). The temporary impetus provided by

the pay equity settlement will cease as of 2008, leading to more modest growth in disposable personal income. As a result, real consumer spending will grow at a more moderate pace in 2008, i.e. 2.4%.

❑ A gradual slowdown in housing starts

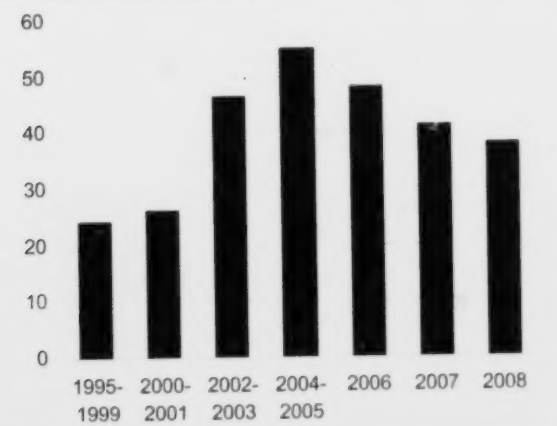
The good performance of the labour market in recent years, coupled with record-low mortgage rates, has prompted many households to become property owners, thereby stimulating residential construction substantially.

The recent increase in the vacancy rate for rental units reflects a certain moderation of household demand for new housing. The sharp rise in the price of real estate between 2002 and 2004, notably in the resale market, also contributed to the downturn in housing starts, by reducing accessibility and boosting the number of housing units available on the resale market as well as the stock of new and vacant multiple housing.

Therefore, the gradual slowdown in housing starts, initiated in 2005, is expected to continue. In 2006, there were nearly 48 000 housing starts, compared with 50 900 units the previous year.

CHART B.20

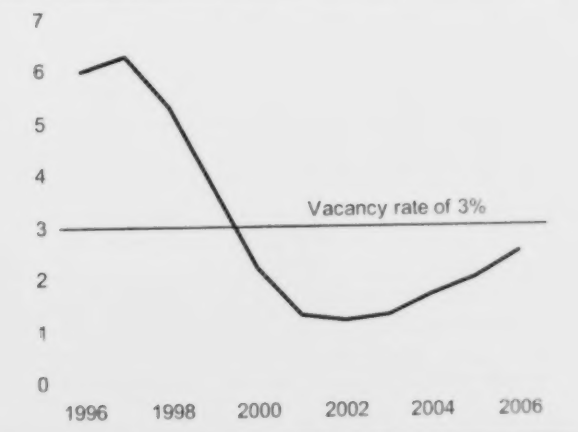
Gradual slowdown in housing starts
(thousands of units)



Sources: Canada Mortgage and Housing Corporation and ministère des Finances du Québec.

CHART B.21

Vacancy rate for rental units
(percent)



Source: Canada Mortgage and Housing Corporation.

In terms of outlook, new residential construction in Québec will continue to dip slightly, closer to the annual trend in household formation. Consequently, housing

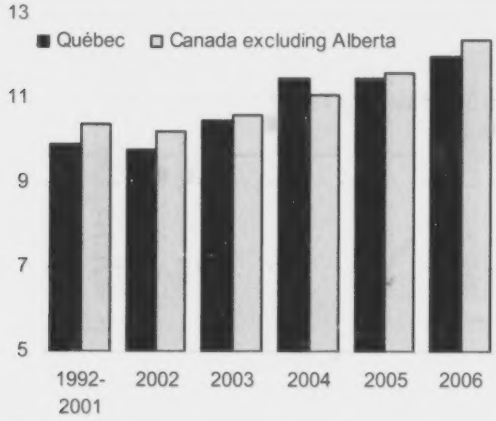
starts are expected to reach 41 100 units in 2007 and 37 740 units in 2008, levels that far surpass those of the late 1990s, when the number of housing starts averaged less than 24 000 per year between 1995 and 1999.

2.3 An economic climate conducive to non-residential investment

Businesses have boosted their real investment by 33% since 2003. The continuation of these efforts is reflected by the growing investment rate, the share of non-residential investment in real GDP having risen by more than two percentage points to 12% in 2006, compared with 2002. Excluding investments made in Alberta, Québec's performance was similar to that of the rest of Canada. This good performance is largely due to investments in machinery and equipment, which have climbed 40% since 2003.

CHART B.22

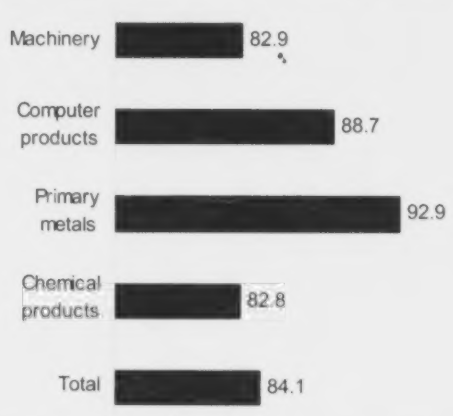
Investment rate
(non-residential investment as a percentage of real GDP)



Source: Statistics Canada and ministère des Finances du Québec.

CHART B.23

Industrial capacity utilization rate
(utilization of Canadian industrial capacity, 2006, percent)



Source: Statistics Canada.

Firms took advantage of the strong Canadian dollar to purchase machinery and equipment, two thirds of which is imported, these efforts enabling them to become more competitive. In addition, the industrial capacity utilization rate, which is high in a number of sectors, such as chemical products, primary metals, machinery and computer and electronic products, prompted them to boost their production capacity.

Firms also benefit from measures implemented by the Québec government, which has eliminated the tax on capital for SMEs and started to gradually eliminate the tax on capital until it is abolished completely by January 1, 2011 for all Québec firms, regardless of their size or activity sector. The government also introduced a capital tax credit on new investments in manufacturing and processing equipment. Furthermore, government investment will continue through financial support for several major economic development projects in Québec's regions.

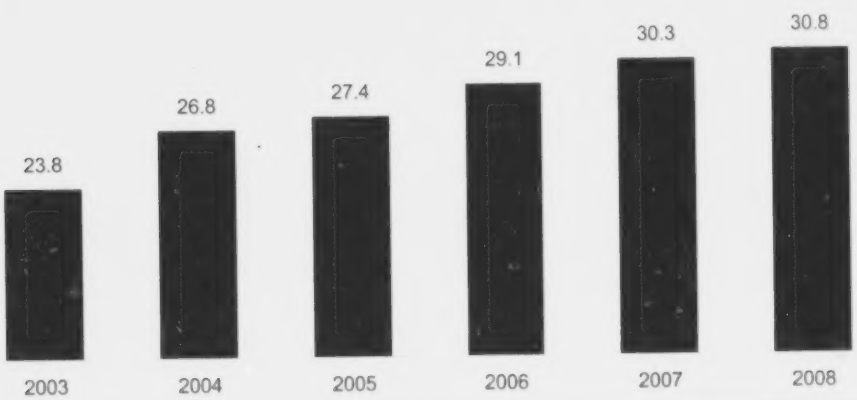
Investment is still high in the energy sector due to the boom in large hydroelectric and wind power projects. Hydro-Québec has more than doubled its level of investment in six years, to nearly $4 billion in 2006.

Real business investment should reach $30.3 billion in 2007 and $30.8 billion in 2008, or $7 billion more than in 2003.

Investment is expected to bounce back as of 2009 with the introduction of new mega projects. In particular, a major increase in energy production capacity is envisaged. Work is expected to begin soon on a number of projects, including construction of the Eastmain-1-A and Sarcelle powerhouses and diversion of part of the waters of the Rupert River in the Eastmain-1 reservoir. In addition, several large private projects under study might begin shortly.

CHART B.24

Business investment
(billions of real dollars)



Sources: Institut de la Statistique du Québec, Statistics Canada and ministère des Finances du Québec.

2.4 A challenging international context

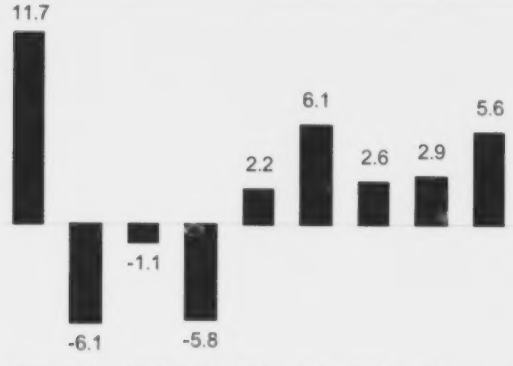
Québec, which has a very open economy, has been coping with a more challenging international context since the early 2000s. The increases in oil prices and the Canadian dollar, which began in 2003, have hurt the profit margins of manufacturing firms that export goods. Québec also has to cope with heightened foreign competition from emerging economic powers such as China and India and with some Québec businesses moving some of their operations to emerging economies.

Certain factors have also helped change the international context in recent years, notably the bursting of the technology bubble and the terrorist attacks of September 11, 2001, which led to a recession in the United States that same year. These events have had an impact on US demand and thus an adverse effect on Québec exports. The lumber crisis has also put a damper on Québec's trade in recent years.

Whereas Québec's international exports of goods rose nearly 12% on average in the late 1990s, the rate of growth has fallen by three quarters owing in part to the difficult international context in recent years. International exports of goods have climbed at an average annual rate of 3.6% since 2004. Québec's international exports of goods are expected to grow 2.9% in 2007 and 5.6% in 2008. Exports will benefit from a relatively stable Canadian dollar and an upturn in the US economy in 2008.

CHART B.25

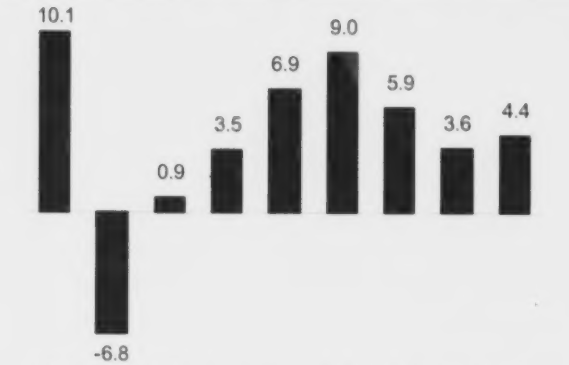
International exports of goods
(real annual percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

CHART B.26

International imports
(real annual percentage change)



Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

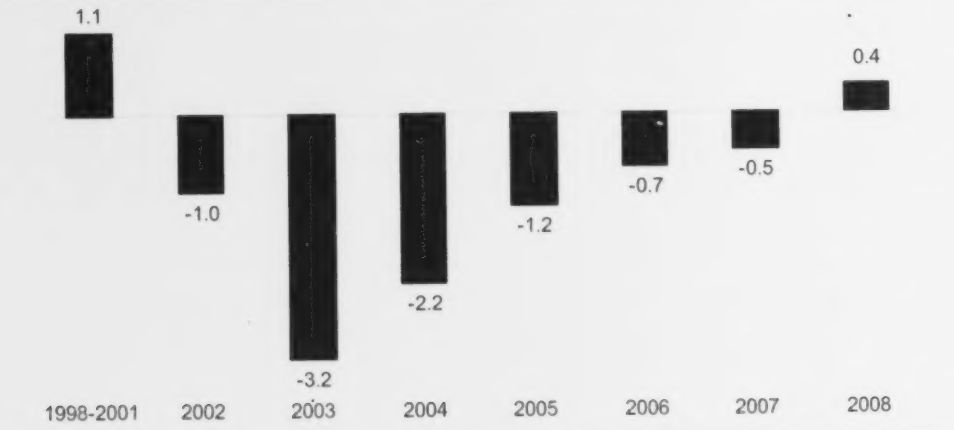
Québec's international imports have jumped in the last few years, with the higher Canadian dollar prompting Québec households and firms to buy more foreign goods and services to the detriment of local products. With domestic demand to moderate and the value of the dollar having stabilized, growth in imports should slow to 3.6% in 2007 and 4.4% in 2008.

The external sector's total contribution to economic growth has been negative since 2002. Whereas this sector added nearly 1 percentage point to Québec's economic growth in the late 1990s, it will have reduced growth by an average of 1.6 points per year from 2002 to 2007.

In 2008, the external sector is expected to make a net positive contribution to economic growth, with the contribution of the growth of exports surpassing that of imports, under the impetus of a rebound in US demand.

CHART B.27

External sector's contribution to economic growth
(percentage of real GDP)



Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

2.5 A dynamic labour market

The labour market is still very dynamic in Québec. From 2003 to 2006, over 200 000 jobs were created in Québec, including 48 100, mostly full-time positions, in 2006. Such employment growth has continued since early 2007, despite ongoing problems in the manufacturing sector. Other sectors have picked up the slack, primarily in the area of services, such as business, health care, finance, and professional, scientific and technical services.

The employment rate continues to climb, while the unemployment rate pursues the downward trend initiated after the 1991-1992 recession. In 2006, the unemployment rate fell to an average of 8%, the lowest level in over 30 years. It even dropped to 7.2% in April 2007. In 2006, for the third consecutive year, the employment rate surpassed 60%, a record high.

In terms of outlook, the labour market is expected to remain robust, creating over 40 000 jobs, on average, in 2007 and 2008. The unemployment rate is expected to diminish further to an average of 7.8% in 2008, while the employment rate is expected to remain above 60%, i.e. at 60.4%.

CHART B.28

Québec unemployment rate
(percent)

Sources: Statistics Canada and ministère des Finances du Québec.

CHART B.29

Québec employment rate
(percent)

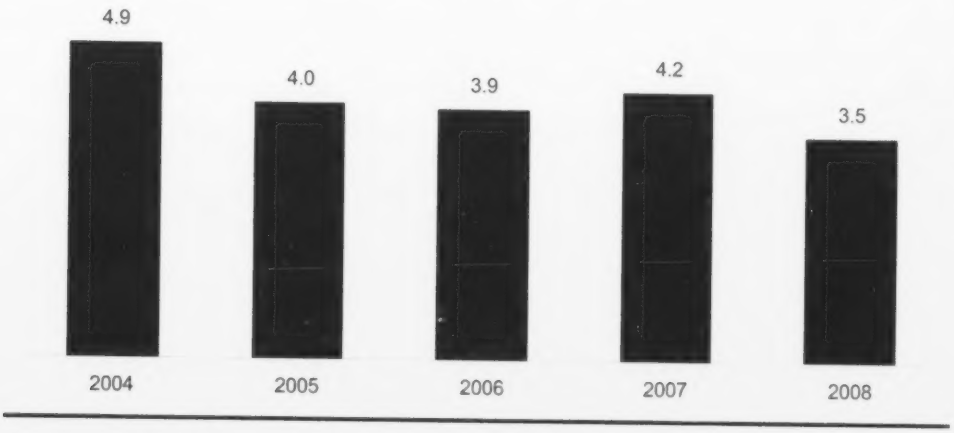
Sources: Statistics Canada and ministère des Finances du Québec.

2.6 Solid growth in nominal GDP

After climbing 4% in 2005 and 3.9% in 2006, Québec's nominal GDP is expected to grow further in 2007, when the pay equity settlement will add close to a 0.8 percentage point to nominal GDP growth, which should thus reach 4.2%. Wage growth is expected to remain high in 2007, at 5.4%. The non-recurring retroactive payment of the pay equity adjustment and stabilization of the price of raw materials will cause nominal GDP growth to slow to 3.5% in 2008.

CHART B.30

Québec's nominal gross domestic product
(annual growth in percent)



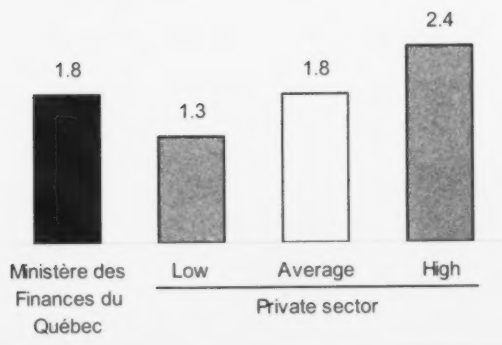
Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

2.7 Comparison with the private sector

At 1.8% in 2007 and 2.5% in 2008, the 2007-2008 Budget's economic growth forecasts are similar to the average private-sector forecasts.

CHART B.31

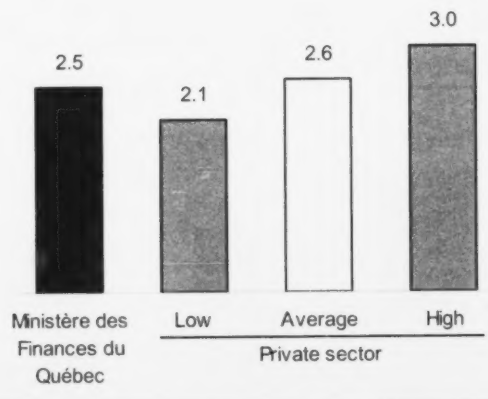
Economic forecasts for 2007
(real GDP, percentage change)



Source: Ministère des Finances du Québec.

CHART B.32

Economic forecasts for 2008
(real GDP, percentage change)



Source: Ministère des Finances du Québec.

TABLE B.2

Economic outlook for Québec

(annual percentage change, except where otherwise indicated)

	2006	2007	2008
OUTPUT			
Real gross domestic product	1.7	1.8	2.5
Gross domestic product	3.9	4.2	3.5
COMPONENTS (in real terms)			
Consumption	3.0	3.1	2.4
Residential investment	-1.5	-2.1	-3.5
Non-residential business investment	6.5	4.0	1.6
– machinery and equipment	7.4	3.4	2.3
International exports	2.6	2.8	5.2
International imports	5.9	3.6	4.4
OTHER ECONOMIC INDICATORS			
Nominal consumption	4.3	4.5	4.0
Housing starts (thousands)	47.9	41.1	37.7
Wages and salaries	3.9	5.4	2.3
Personal income	4.3	5.2	3.3
Corporate profits	11.4	1.0	6.6
Consumer prices	1.7	1.8	1.8
LABOUR MARKET			
Labour force	1.0	1.1	0.9
Employment	1.3	1.3	1.0
Job creation (thousands)	48.1	49.9	36.8
Unemployment rate (%)	8.0	7.8	7.8
CANADIAN FINANCIAL MARKETS			
3-month Treasury bills (rate in %)	4.0	4.2	4.2
10-year bonds (rate in %)	4.3	4.3	4.7
Canadian dollar (in US cents)	88.2	86.0	86.2

Section C

The Government's Budgetary and Financial Stance

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1. SOUND MANAGEMENT OF PUBLIC FINANCES **C.5**

1.1 Maintenance of a balanced budget and repayment of the debt C.5

1.2 Acceleration in the reduction of the debt load C.9

2. UPDATING OF THE FINANCIAL FRAMEWORK **C.11**

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2.1.2 Revenue from government enterprises C.17

2.1.3 Revenues from federal transfers C.18

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2.2.1 Adjustments to program spending in 2006-2007 ..... C.21

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2.2.3 Weight of spending in the economy at one of its lowest levels in 35 years C.25

2.2.4 Major investments in public infrastructure C.26

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INTRODUCTION

This section of the Budget Plan presents the preliminary results for fiscal 2006-2007 and the government's budgetary and financial stance for 2007-2008 and 2008-2009.

The information provided concerns:

— consolidated financial and budgetary transactions for the period from 2006-2007 to 2008-2009, including the impact of the various measures announced in the present Budget;

— the change in revenue and expenditure, as well as adjustments made since last year's Budget;

— capital investments, non-budgetary transactions and net financial requirements.

1. SOUND MANAGEMENT OF PUBLIC FINANCES

1.1 Maintenance of a balanced budget and repayment of the debt

The 2007-2008 Budget forecasts that a balanced budget will be achieved in each year of the financial framework. In 2006-2007, the additional profits made by Hydro-Québec and robust tax revenues made it possible to deposit an additional $500 million in the Generations Fund and to allocate $1.3 billion to the budgetary reserve.

Thanks to the allocation to the reserve, the government will be able to deposit an extra $200 million in the Generations Fund in 2007-2008, which will bring the sums accumulated in the fund to almost $2 billion as at March 31, 2009. Use of the reserve's balance will help to balance the budget in 2008-2009.

TABLE C.1

Summary of consolidated budgetary transactions – 2007-2008 Budget[P]
(millions of dollars)

	2006-2007	2007-2008	2008-2009
BUDGETARY REVENUE	**60 305**	**61 016**	**61 269**
% change	**8.2**	**1.2**	**0.4**
BUDGETARY EXPENDITURE			
Program spending	– 51 769	– 53 802	– 55 393
% change	5.2	3.9	3.0
Debt service	– 6 967	– 7 244	– 7 158
% change	1.3	4.0	– 1.2
Total	**– 58 736**	**– 61 046**	**– 62 551**
% change	**4.7**	**3.9**	**2.5**
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	**260**	**30**	**182**
Additional deposits in the Generations Fund	**– 500[1]**	**– 200**	
Allocation to the budgetary reserve	**– 1 300**		
Use of the budgetary reserve		**200**	**1 100**
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**29**	**0**	**0**
Net results of the Generations Fund	**578**	**653**	**740**
CONSOLIDATED BUDGETARY BALANCE	**607**	**653**	**740**

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Additional deposit stemming from the sale of Hydro-Québec's interest in Transelec Chile.

❑ $500 million deposited in the Generations Fund and $1.3 billion allocated to the budgetary reserve in 2006-2007

The present Budget confirms that a balanced budget was achieved in 2006-2007. Indeed, the budgetary balance for the purposes of the *Balanced Budget Act* shows a surplus of $29 million.

Since the 2006-2007 Budget, the government has recorded substantial additional revenue:

— $1.5 billion from the profits of government enterprises, due mainly to the additional profits made by Hydro-Québec on the sale of its interests in certain enterprises;

— $714 million in tax revenues, particularly because of the strong showing by the economy;

— $219 million from federal transfers stemming from, among other things, the measures announced in the federal budget of May 2006.

TABLE C.2

Summary of consolidated budgetary transactions in 2006-2007
(millions of dollars)

	March 2006 Budget	Adjustments	May 2007 Budget[P]
BUDGETARY REVENUE			
Own-source revenue excluding government enterprises	42 347	714	43 061
Revenue from government enterprises	4 758	1 471	6 229
Total own-source revenue	47 105	2 185	49 290
Federal transfers	10 796	219	11 015
Total	**57 901**	**2 404**	**60 305**
BUDGETARY EXPENDITURE			
Program spending	– 50 873	– 896	– 51 769
Debt service	– 7 205	238	– 6 967
Total	**– 58 078**	**– 658**	**– 58 736**
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	**177**	**83**	**260**
Additional deposits in the Generations Fund[1]		**– 500**	**– 500**
Allocation to the budgetary reserve		**– 1 300**	**– 1 300**
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**0**	**29**	**29**
Net results of the Generations Fund	**74**	**504**	**578**
CONSOLIDATED BUDGETARY BALANCE	**74**	**533**	**607**

P: Preliminary results for 2006-2007.
1 Additional deposit stemming from the sale of Hydro-Québec's interest in Transelec Chile.

In addition, the government saved $238 million on debt service owing, notably, to lower-than-anticipated interest rates.

Overall, the additional revenue and savings totalling $2.7 billion have enabled the government to:

- increase program spending by $896 million in order to finance, notably:
  - the additional costs arising from the pay equity settlement;
  - an increase in the envelope of the ministère de la Santé et des Services sociaux;
  - the recurrence of expenditures recorded at the close of 2005-2006, particularly in regard to the allowance for doubtful accounts at Revenu Québec;
- deposit an additional $500 million in the Generations Fund;
- allocate $1.3 billion to the budgetary reserve.

Given the increase in spending mentioned above, growth in program spending will reach 5.2% in 2006-2007.

❑ A balanced budget maintained and $200 million deposited in the Generations Fund in 2007-2008

In conformity with the government's budgetary stance, a balanced budget will be achieved again in 2007-2008.

For 2007-2008, growth in budgetary revenue amounts to 1.2%. This modest increase reflects, notably, the impact of the tax reductions granted to individuals and enterprises, announced in this and previous budgets. It also reflects the non-recurrence of the substantial profits made by Hydro-Québec in 2006-2007 on the sale of its interests in certain enterprises.

The impact of these factors is limited by the major increase in federal transfer revenues arising from the measures announced by the federal government over the past year.

Moreover, growth in program spending in 2007-2008 will be limited to 3.9%, which is less than the increase in nominal GDP, i.e. 4.2%.

In 2007-2008, the government will deposit an additional $200 million in the Generations Fund from the sums allocated to the budgetary reserve in 2006-2007. The government's sound financial management and the additional profits earned by Hydro-Québec will thus make it possible to accelerate the reduction of the debt load in the economy.

❑ A balanced budget and disciplined management of spending in 2008-2009

A balanced budget will be achieved again in 2008-2009. The government plans to use the balance of the budgetary reserve, i.e. $1.1 billion. In addition, the government has set itself the objective of limiting program spending growth to 3.0%. For this purpose, it will pursue its efforts to modernize the government and to boost productivity and efficiency in the delivery of services. It will also continue to implement its plan to reduce the number of employees in Québec's public service.

1.2 Acceleration in the reduction of the debt load

The Generations Fund was created in June 2006 by the adoption of the *Act to reduce the debt and establish the Generations Fund*.

Dedicated exclusively to repaying the debt, the Generations Fund is financed by specific revenue sources, such as the water-power royalties paid by Hydro-Québec and private producers of hydro-electricity, the sale of certain assets and income generated by the investment of the sums making up the fund.

In presenting the *Update on Québec's Economic and Financial Situation* last fall, the government announced the deposit of an additional $500 million in the Generations Fund thanks to the additional profits realized by Hydro-Québec on the sale of its interest in Transelec Chile.

The 2007-2008 Budget provides for new deposits of:

- an extra $200 million in the Generations Fund in 2007-2008;
- the government is also committed to depositing an additional $400 million per year, on average, in the Generations Fund from 2010-2011 to 2025-2026;
  - these sums will be derived from the additional profits to be earned by Hydro-Québec on its electricity exports, which will be made possible by the installation of new production capacities.

As explained in detail in Section I, a total of $41.7 billion will be accumulated in the Generations Fund by 2026. This corresponds to nearly half the debt accumulated over the past 30 years to fund current spending, i.e. an estimated $91.7 billion. A major step will thus have been taken toward restoring inter-generational equity.

2. UPDATING OF THE FINANCIAL FRAMEWORK

This section explains the adjustments made to the financial framework for 2006-2007 since the March 2006 Budget and presents the main factors affecting growth in the government's revenue and expenditure.

2.1 Budgetary revenue

The government's budgetary revenue should total $61.0 billion in 2007-2008, i.e. $47.8 billion in own-source revenue and $13.2 billion in federal transfers. Budgetary revenue should grow by 1.2% in 2007-2008 and 0.4% in 2008-2009.

TABLE C.3

Consolidated Revenue Fund
Budgetary revenue
(millions of dollars)

	March 2006 Budget		May 2007 Budget[P]		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
OWN-SOURCE REVENUE					
Own-source revenue excluding government enterprises	42 347	714	43 061	43 217	43 470
% change	*3.2*		*4.5*	*0.4*	*0.6*
Government enterprises	4 758	1 471	6 229	4 625	4 682
% change	*6.7*		*36.8*	*–25.8*	*1.2*
TOTAL	**47 105**	**2 135**	**49 290**	**47 842**	**48 152**
% change	**3.6**		**7.8**	**–2.9**	**0.6**
FEDERAL TRANSFERS	**10 796**	**219**	**11 015**	**13 174**	**13 117**
% change	**8.3**		**10.5**	**19.6**	**–0.4**
BUDGETARY REVENUE	**57 901**	**2 404**	**60 305**	**61 016**	**61 269**
% change	**4.4**		**8.2**	**1.2**	**0.4**

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

2.1.1 Own-source revenue excluding government enterprises

❑ Major upward adjustments to tax revenues in 2006-2007

Preliminary results for fiscal 2006-2007 show that own-source revenue, excluding the profits of government enterprises, are revised upward by $714 million compared with the 2006-2007 Budget, bringing growth in this revenue to 4.5% compared with the previous year.

Revenue from **personal income tax** is up $827 million, an improvement that reflects notably:

— robust tax receipts and the revision of the impact of the retroactive pay equity adjustments paid to government employees prior to March 31, 2007;

— the adjustment to the distribution of source deductions and tax instalments from the Health Services Fund and the Régie des rentes du Québec to take actual data into account.

Contributions to the Health Services Fund are reduced by $256 million, essentially because of the offsetting of the above-mentioned adjustment to the distribution of source deductions to the benefit of personal income tax.

Revenue from **corporate taxes** is raised by $447 million because of the revision of the growth in corporate profits in 2006 and the recurrence of additional revenue received in late 2005-2006.

Revenue from **consumption taxes** is adjusted downward by $520 million.

— Revenue from the Québec sales tax is decreased by $290 million, reflecting the downward revision of some of the taxable components of household consumption and higher growth in input tax refunds.

— Revenue from the tax on tobacco products is down $184 million, reflecting essentially the impact of the implementation of the new provisions introduced in the *Tobacco Act* last May on the consumption of such products.

— Lastly, on account of high prices, the volume of fuel sold was lower than initially forecast, reducing revenue from the tax on such products.

Other revenues are adjusted upward by $216 million mainly on account of interest income and revenue from fines, forfeitures and recoveries, both of which were higher than expected.

TABLE C.4

Consolidated Revenue Fund
Change in own source revenue excluding government enterprises
(millions of dollars)

	March 2006 Budget		May 2007 Budget[P]		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Personal income tax	17 309	827	18 136	18 045	17 862
% change	*4.2*		*10.3*	*– 0.5*	*– 1.0*
Contributions to the Health Services Fund	5 331	– 256	5 075	5 408	5 621
% change	*4.0*		*0.6*	*6.6*	*3.9*
Corporate taxes	4 349	447	4 796	4 618	4 608
% change	*– 0.8*		*0.2*	*– 3.7*	*– 0.2*
Consumption taxes	13 108	– 520	12 588	12 808	13 131
% change	*3.6*		*1.2*	*1.7*	*2.5*
Other revenues	2 250	216	2 466	2 338	2 248
% change	*– 0.1*		*– 0.1*	*– 5.2*	*– 3.8*
OWN-SOURCE REVENUE EXCLUDING GOVERNMENT ENTERPRISES	**42 347**	**714**	**43 061**	**43 217**	**43 470**
% change	**3.2**		**4.5**	**0.4**	**0.6**

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

❑ Growth limited by the impact of measures to reduce the tax burden in 2007-2008 and 2008-2009

In 2007-2008, own-source revenue, excluding government enterprises, will increase by 0.4%, or less than the rate of economic growth. This weak progression is explained essentially by:

— the tax reductions announced in this and previous budgets regarding personal income tax and corporate taxes;

— non-recurring revenue arising from the retroactive pay equity adjustments paid to government employees in March 2007.

In 2008-2009, growth in own-source revenue, excluding government enterprises will amount to only 0.6%, or less than the increase in gross domestic product, essentially because of the impact of the personal income tax cut and the reduction in the tax on capital.

Change by source

Personal income tax, the main source of government revenue, should diminish by 0.5%, to $18.0 billion in 2007-2008.

— In this fiscal year, the progression in income subject to tax will be more than offset by the impact of the fiscal measures announced in this and previous budgets and by the non-recurrence of:

  — revenue from the retroactive adjustments paid in regard to pay equity;

  — the distribution of source deductions in 2006-2007 in respect of previous years.

In 2008-2009, revenue from personal income tax should fall by 1.0%. If the impact of the tax cuts announced in this Budget is not taken into account, the change in revenue is compatible with the growth in income subject to tax.

Contributions to the Health Services Fund should total $5.4 billion in 2007-2008, an increase of 6.6%.

— This growth is comparable to that of salaries and wages if the impact of the non-recurring downward revision stemming from the distribution of source deductions in 2006-2007 is excluded.

— The growth rate anticipated in 2008-2009, i.e. 3.9%, will be similar to that of salaries and wages.

Despite an average increase of over 3% in corporate profits in 2007 and 2008, revenue from **corporate taxes** should decline by 3.7% in 2007-2008 and 0.2% in 2008-2009.

— This stems from the substantial reduction in the tax burden of businesses in respect of both the tax on capital and income tax announced in this and previous budgets to foster economic growth.

In 2007-2008, revenue from **consumption taxes** should climb by 1.7%. This weak growth reflects:

— the impact of the agreement on a new fiscal and financial partnership concluded with the municipalities in spring 2006, which enables them to obtain, as of 2007-2008, a refund of part of the Québec sales tax they pay on their purchases;

— the stagnation in revenue from the tobacco tax.

In 2008-2009, the increase of 2.5% in consumption tax revenue will keep pace with the progression in household consumption, once the weak growth in fuel tax revenue and the stagnation in tobacco tax revenue are taken into account.

❑ Change in revenue compatible with economic growth

Overall, growth in own-source revenue, excluding government enterprises, is expected to be similar to nominal economic growth. Excluding the financial impact of the fiscal measures and certain non-recurring revenue, growth in own-source revenue for fiscal years 2007-2008 and 2008-2009 will be 3.6%, on average, a rate similar to the increase in nominal GDP.

TABLE C.5

Consolidated Revenue Fund
Change in own-source revenue on a comparable basis[P]
(millions of dollars)

	2006-2007	2007-2008	2008-2009
OWN-SOURCE REVENUE EXCLUDING GOVERNMENT ENTERPRISES	**43 061**	**43 217**	**43 470**
% change	***4.5***	***0.4***	***0.6***
Less:			
2007-2008 Budget measures			
- Personal income tax reduction		– 295	– 1 295
- Corporate tax reduction		– 88	– 208
- Other fiscal measures		– 48	– 32
2006-2007 Budget measures			
- Personal income tax reduction	– 75	– 359	– 382
- Other fiscal measures	– 111	– 57	– 93
2005-2006 Budget measures			
- Personal income tax reduction	– 337	– 365	– 372
- Other fiscal measures	– 250	– 392	– 483
Other factors[1]	452	– 285	– 265
Sub-total	**– 321**	**– 1 889**	**– 3 130**
REVENUE BEFORE MEASURES	**43 382**	**45 106**	**46 600**
% change		***4.0***	***3.3***
Nominal GDP growth rate in %[2]		**4.2**	**3.5**
Elasticity in calendar year[3]		**1.0**	**1.0**

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Includes, notably, the amounts arising from the reconciliation of source deductions for employers and self-employed workers, the impact of retroactive pay equity adjustments on revenue and the agreement on a new fiscal and financial partnership with the municipalities.
2 For the calendar year ending three months before the end of the fiscal year.
3 Elasticity between growth in revenue on a comparable basis and growth in GDP. For example, an elasticity rate of 1.0 means that 1.0% growth in GDP results in 1.0% growth in own-source revenue.

2.1.2 Revenue from government enterprises

❑ Major upward adjustment in 2006-2007

The profits of government enterprises are adjusted upward by close to $1.5 billion for 2006-2007, notably because of the additional profits of $1.5 billion earned by Hydro-Québec, of which $944 million derive from the sale of its interests in certain enterprises. Moreover, Hydro-Québec made additional profits of nearly $400 million, mainly from foreign exchange gains and a decrease in its financing costs.

However, Loto-Québec shows a $133-million decline in profits that can be attributed primarily to the drop in revenue from the use of video lottery machines.

For 2007-2008, revenue from government enterprises is estimated at $4.6 billion. A slight progression in 2008-2009 will raise such revenue to $4.7 billion.

TABLE C.6

Consolidated Revenue Fund
Change in revenue from government enterprises
(millions of dollars)

	March 2006 Budget		May 2007 Budget[P]		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Hydro-Québec	2 500	1 543[1]	4 043	2 545	2 500
Loto-Québec	1 524	– 133	1 391	1 329	1 329
Société des alcools du Québec	702	8	710	745	785
Other	32	53	85	6	68
REVENUE FROM GOVERNMENT ENTERPRISES	**4 758**	**1 471**	**6 229**	**4 625**	**4 682**
% change	***6.7***		***36.8***	***–25.8***	***1.2***

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Including profits of $944 million realized by Hydro-Québec on the sale of its interests in certain corporations.

2.1.3 Revenues from federal transfers

For 2006-2007, revenues from federal transfers should reach $11.0 billion, or $219 million more than forecast in the March 2006 Budget. This increase is explained essentially by additional equalization revenues of $185 million stemming from the federal budget of May 2006.

For 2007-2008 and 2008-2009, it is anticipated that federal transfer revenues will be $13.2 billion and $13.1 billion respectively.

TABLE C.7

Consolidated Revenue Fund
Change in federal transfer revenues
(millions of dollars)

	March 2006 Budget		May 2007 Budget[P]		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Equalization	5 354	185	5 539	7 160	7 622
% change	*11.6*		*15.4*	*29.3*	*6.5*
Health transfers	3 605	44	3 649	3 698	3 653
% change	*13.2*		*14.6*	*1.3*	*– 1.2*
Transfers for post-secondary education and other social programs	1 041	29	1 070	1 371	1 269
% change	*0.7*		*3.5*	*28.1*	*– 7.4*
Other programs	796	– 39	757	945	573
% change	*– 16.6*		*– 20.5*	*24.8*	*– 39.4*
FEDERAL TRANSFERS	**10 796**	**219**	**11 015**	**13 174**	**13 117**
% change	***8.3***		***10.5***	***19.6***	***– 0.4***

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

Federal transfer revenues are expected to climb by 19.6% in 2007-2008. This increase is due mainly to the changes to federal transfers announced in the March 2007 federal budget, notably the thorough reform of the equalization program.

Compared with the March 2006 Budget, equalization revenues have been revised upward by $1.6 billion in 2007-2008 and close to $1.9 billion in 2008-2009. Section D presents the changes made by the federal government to federal transfers, as well as the impact of these changes on Québec's revenues.

The slight decrease of 0.4% in federal transfers in 2008-2009 can be attributed essentially to the non-recurrence of income from five of the trusts established by the federal government in its May 2006 and March 2007 budgets. Québec's share of these five trusts totals $704 million, of which $607 million will be used in 2007-2008 and $54 million in 2008-2009.

It should be noted that the provinces can use the funds set aside for them according to their needs and on the basis of a schedule that they themselves define, without exceeding the lifespan set for these trusts by the federal government. The income recording schedule chosen by the Québec government is shown in the following table.

TABLE C.8

Schedule for recording income from the trusts announced in the May 2006 and March 2007 federal budgets
(millions of dollars)

	2007-2008	2008-2009	2009-2010	Total
Post-Secondary Education Infrastructure Trust	235	–	–	**235**
Public Transit Capital Trust	117	0	–	**117**
Affordable Housing Trust	187	0	–	**187**
Off-Reserve Aboriginal Housing Trust	26	12	–	**38**
Patient Wait Times Guarantee Trust	42	42	43	**127**
TOTAL	**607**	**54**	**43**	**704**

Note: The Post-Secondary Education Infrastructure Trust must be used by March 31, 2008 and is accounted for in "Transfers for post-secondary education and other social programs". The Public Transit Capital Trust, the Affordable Housing Trust and the Off-Reserve Aboriginal Housing Trust must be used by March 31, 2009 at the latest and are accounted for in "Other programs". The Patient Wait Times Guarantee Trust must be used by March 31, 2010 at the latest and is accounted for in "Health transfers".

The federal transfer revenues forecast in the present Budget does not include certain amounts announced in the last federal budget, notably for the human papilloma virus vaccine, the ecoTrust and labour market training. These amounts will be taken into account when the necessary decisions regarding all the details of their use have been made.

2.2 Budgetary expenditure

For 2007-2008, budgetary expenditure should reach $61.0 billion, an increase of 3.9% compared with 2006-2007. This growth is below that of nominal GDP, which amounts to 4.2%.

Program spending will thus total $53.8 billion and debt service $7.2 billion.

For 2008-2009, the government plans to limit program spending growth to 3.0%. For this purpose, as mentioned above, it will pursue its efforts to modernize the government and to boost productivity and efficiency in the delivery of services. It will also continue to implement its plan to reduce the number of employees in Québec's public service.

TABLE C.9

Consolidated Revenue Fund
Change in budgetary expenditure[P]
(millions of dollars)

	2006-2007	2007-2008	2008-2009
Program spending	51 769	53 802	55 393
% change	*5.2*	*3.9*	*3.0*
Debt service	6 967	7 244	7 158
% change	*1.3*	*4.0*	*–1.2*
BUDGETARY EXPENDITURE	**58 736**	**61 046**	**62 551**
% change	***4.7***	***3.9***	***2.5***
Nominal GDP growth rate in %[1]	3.9	4.2	3.5
Inflation rate in Québec in %	1.7	1.8	1.8

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 For the calendar year ending three months before the end of the fiscal year.

2.2.1 Adjustments to program spending in 2006-2007

Program spending in 2006-2007 stands at $51.8 billion, an increase of 5.2% compared with 2005-2006. This represents an upward revision of $896 million compared with the target of $50.9 billion set in the 2006-2007 Budget Speech.

This adjustment can be explained mainly by:

— the recurrence of expenditures recorded at the close of 2005-2006, relating notably to the allowance for doubtful accounts at Revenu Québec;

— the impact of the decision by the Commission de l'équité salariale to spread the wage adjustments arising from the pay equity settlement over seven payments made over six years;

— the increase in the envelope of the ministère de la Santé et des Services sociaux to take into account additional costs for prescription drug insurance and medical services;

— the increase in the envelope of the ministère de la Sécurité publique, notably due to the agreement reached with the police officers of the Sûreté du Québec;

— the general election of March 26, 2007;

— the increase in the envelope of the ministère de l'Emploi et de la Solidarité sociale, notably because of the funds allocated to forestry worker assistance.

It should be noted that if the spending increases related to the pay equity settlement and the general election are excluded, program spending growth amounts to 4.5%.

TABLE C.10

Change in program spending in 2006-2007

(millions of dollars)

PROGRAM SPENDING OBJECTIVE PRESENTED IN THE 2006-2007 BUDGET SPEECH	**50 873**
Adjustments	
Increase in the expenditure for the allowance for doubtful accounts at Revenu Québec	248
Impact of the spreading of the pay equity settlement over seven payments rather than eight	242
Additional spending at the ministère de la Santé et des Services sociaux	210
Additional spending at the ministère de la Sécurité publique	71
General election of March 26, 2007	69
Additional spending at the ministère de l'Emploi et de la Solidarité sociale	51
Other factors	5
Sub-total	**896**
REVISED PROGRAM SPENDING	**51 769**

Source: Secrétariat du Conseil du trésor.

2.2.2 Maintaining disciplined management of spending

Program spending, including the cost of the measures announced in this Budget, will increase by 3.9% in 2007-2008, or $2.0 billion, to $53.8 billion. Most of this increase will be used to fund the priorities of health and education.

❑ Giving priority to health and education

Two thirds of the growth in program spending in 2007-2008 is being allocated to health and social services. This sum, which represents an increase of $1.4 billion, or 6.0%, will make it possible, notably, to cover the normal increase in system costs related, for example, to wage increases, while meeting health network costs such as medication expenses, the cost of new technology and the aging of the population.

TABLE C.11

Consolidated Revenue Fund
Program spending growth in 2007-2008[P]
(millions of dollars)

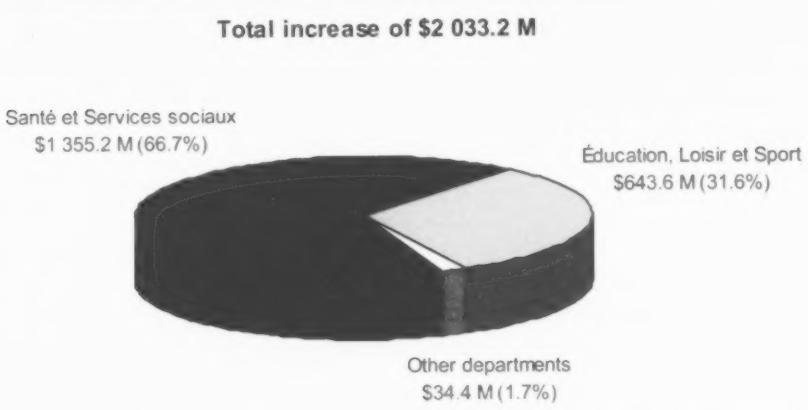
			Growth	
	2006-2007	**2007-2008**	$M	%
Santé et Services sociaux	22 488.0	23 843.2	1 355.2	6.0
Éducation, Loisir et Sport	12 751.6	13 395.2	643.6	5.0
Other departments	16 529.4	16 563.8	34.4	0.2
TOTAL	**51 769.0**	**53 802.2**	**2 033.2**	**3.9**

P: Preliminary results for 2006-2007 and forecasts for 2007-2008.
Source: Secrétariat du Conseil du trésor.

The budget of the ministère de l'Éducation, du Loisir et du Sport is also increasing by a substantial 5.0%, or an additional $644 million. This increase will make it possible to finance, notably, wage adjustments including the pay equity settlement and the additional investments of $120 million in post-secondary education.

CHART C.1

Giving priority to health and education
(breakdown of program spending growth in 2007-2008[P])



F: Forecasts.
Source: Secrétariat du Conseil du trésor.

The increase of only 0.2%, or $34 million, in the budgets of the other departments, testifies to the government's tight control of spending.

2.2.3 Weight of spending in the economy at one of its lowest levels in 35 years

The forecast for program spending in 2007-2008 is once again in keeping with the disciplined approach that has enabled Québec to regain control of growth in public spending while improving services for Quebecers.

On account of this budgetary discipline, the weight of program spending in relation to GDP in 2008-2009 will be 18.1%, one of the lowest levels in 35 years.

CHART C.2

Program spending[P]
(as a percentage of GDP)

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

2.2.4 Major investments in public infrastructure

High quality, well maintained, cutting edge public infrastructure contributes directly to Québec's economic prosperity. Therefore, the government recognizes the importance of allocating the resources needed to maintain and develop infrastructure.

❑ Five-year infrastructure renewal plan

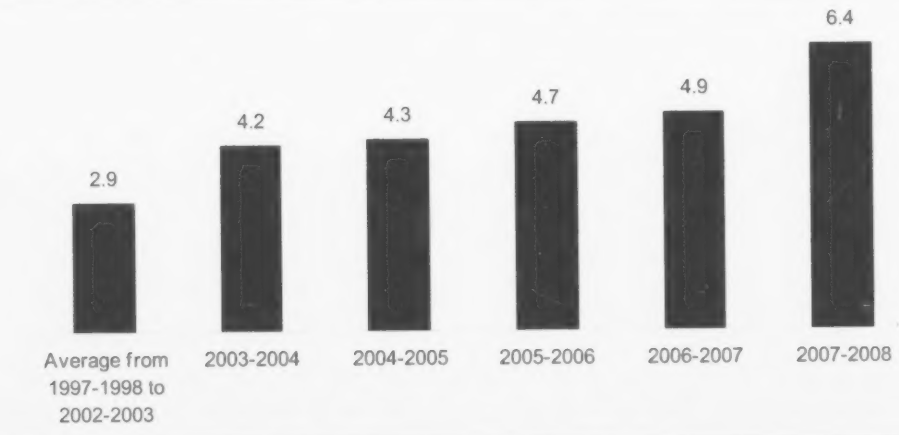
The 2007-2008 Budget announces that a general infrastructure restoration and development plan will be tabled in the fall. For the five years of the plan, the government plans to invest $30 billion, notably to restore and develop schools, hospitals, roads and public transit facilities. Two thirds of the sums invested will be used to maintain assets and correct the maintenance deficit accumulated over the past few decades.

❑ Record investments of $6.4 billion in 2007-2008

In the first year of the plan, i.e. 2007-2008, the government's total investments in infrastructure will reach a record-high $6.4 billion, 30.5% more than in 2006-2007 and more than double its average investments from 1997-1998 to 2002-2003.

CHART C.3

Capital investments
(government contribution, billions of dollars)



❑ A responsible policy for maintaining assets

Over the past four years, the government has made unprecedented investments in order to buy new equipment and restore public infrastructure.

In addition, it introduced a new policy in 2004 to ensure that assets are adequately maintained. Accordingly, hospitals and educational institutions are allocated annually an envelope equal to 2.0% of the value of their immovables in order to ensure they are maintained in good condition. An envelope of 1.0% is being added in the health sector for functional renovation work.

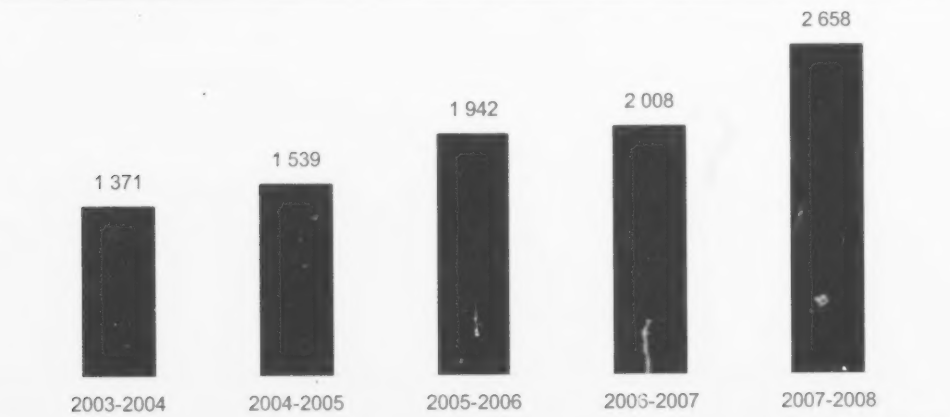
The government is stepping up its assets maintenance efforts, with the result that investments made in 2007-2008 to maintain assets will be nearly double what they were in fiscal 2003-2004.

Additional investments are also being allocated to this revised envelope so that medical equipment as a whole can be replaced over a 10 year period. In addition, specific allocations are being granted to the health and education networks to replace and modernize computer equipment.

Moreover, with the tabling of the five-year plan, the government plans to extend in fall 2007 its assets maintenance policy, which currently covers hospitals and educational institutions, to public infrastructure as a whole, notably for water and sewer systems upgrading, municipal bridges and cultural infrastructure.

CHART C.4

Continued implementation of the assets maintenance policy[P, 1]
(government contribution, millions of dollars)



P: Preliminary results for 2006-2007 and forecasts for 2007-2008.
1 Including the funds earmarked for preserving and improving the road system.

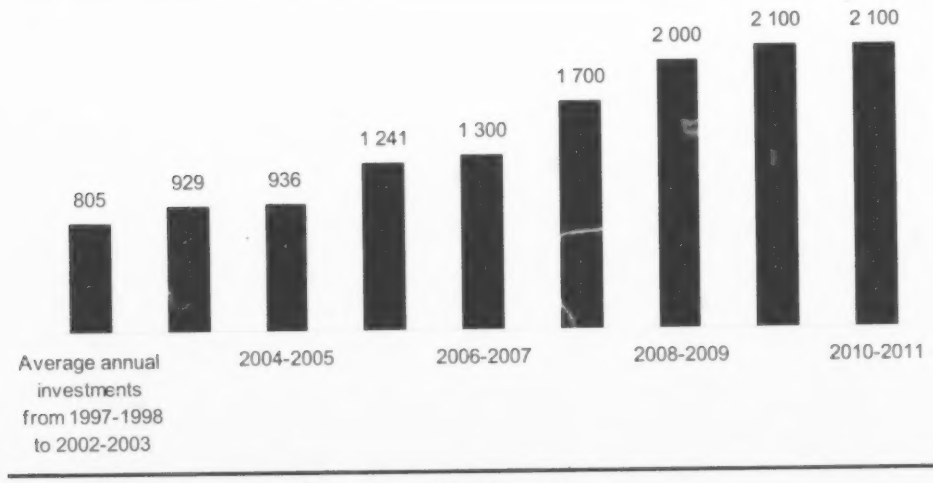
❑ Unprecedented increase in the budget for preserving and improving the road system and its structures

In keeping with its commitment, the Québec government will have invested $1.3 billion in road infrastructure in 2006-2007. In 2007-2008, investments in the road system will be increased by $400 million, to $1.7 billion, of which $1.2 billion will be reserved for preserving and improving the road system and its structures. Moreover, investments in roads will be increased by an additional $300 million and will thus reach $2.0 billion in 2008-2009. For the next two years, the investment budget will be raised to $2.1 billion. From now until 2010-2011, a total of $7.9 billion will thus be invested in the road system.

By 2009-2010, the budget for the road system will have increased by 160% compared with the average budgets allocated from 1997-1998 to 2002-2003.

CHART C.5

Investments in the road system[P, 1]
(government contribution, millions of dollars)



P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Including the funds earmarked for preserving, improving and developing the road system.

2.2.5 Debt service

In 2006-2007, debt service should amount to nearly $7 billion, i.e. $4.3 billion for direct debt service and $2.6 billion for interest ascribed to the retirement plans.

Overall, debt service is revised downward by $238 million compared with the figure announced in the March 2006 Budget. Direct debt service is $222 million less than forecast, primarily because medium- and long-term interest rates were lower than anticipated and the Canadian dollar performed better than the yen and the US dollar. As for the interest ascribed to the retirement plans, it is $16 million less than forecast.

In 2007-2008, debt service should amount to $7.2 billion, an increase of 4.0%. It should remain at a comparable level in 2008-2009. This change can be explained mainly by the decline in the value of the Canadian dollar in relation to the various currencies that make up the debt, and by the increase in interest rates.

TABLE C.12

Consolidated Revenue Fund
Change in debt service
(millions of dollars)

	March 2006 Budget		May 2007 Budget[P]		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Direct debt service	– 4 546	222	– 4 324	– 4 923	– 5 182
Interest ascribed to the retirement plans	– 2 659	16	– 2 643	– 2 321	– 1 976
DEBT SERVICE	**– 7 205**	**238**	**– 6 967**	**– 7 244**	**– 7 158**
% change	***5.2***		***1.3***	***4.0***	***– 1.2***

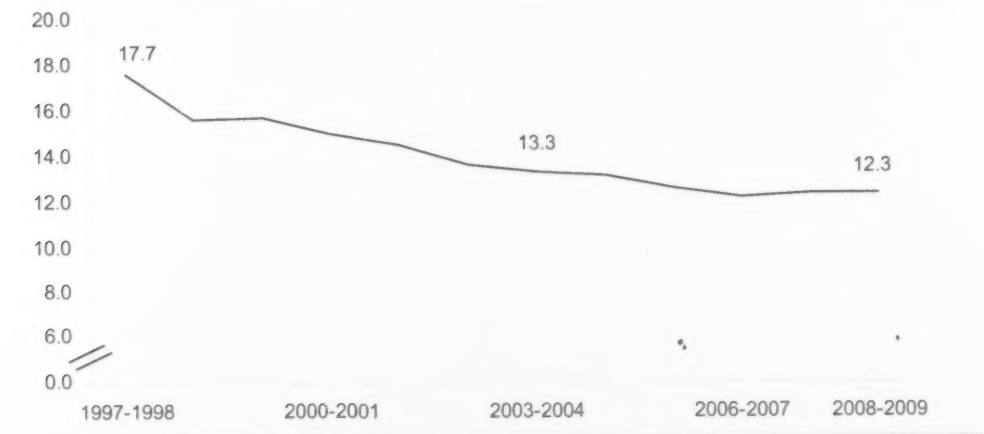
P: Preliminary results for 2006-2007 and forecasts for subsequent years.

❑ A smaller proportion of revenue is being devoted to servicing the total debt

The share of budgetary revenue devoted to total debt service, which includes the debt service of the Consolidated Revenue Fund and that of consolidated organizations, should stand at 12.3% in 2008-2009, compared with 17.7% in 1997-1998.

CHART C.6

Debt service[P]
(as a percentage of total revenue)



P: Preliminary results for 2006-2007 and forecasts for subsequent years.

2.3 Consolidated organizations

For fiscal 2006-2007, the net results of consolidated organizations show a surplus of $260 million, an increase of $83 million compared with the results forecast in the 2006-2007 Budget.

For 2007-2008 and 2008-2009, the net results of consolidated organizations show surpluses of $30 million and $182 million respectively.

TABLE C.13

Consolidated organizations[1]
Summary of budgetary transactions
(millions of dollars)

	March 2006 Budget		May 2007 Budget[P]		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Own-source revenue	2 466	267	2 733	2 786	2 993
Federal transfers	956	– 197	759	919	772
Total	**3 422**	**70**	**3 492**	**3 705**	**3 765**
Expenditure excluding debt service	– 2 562	58	– 2 504	– 2 911	– 2 709
Debt service	– 683	– 45	– 728	– 764	– 874
Total	**– 3 245**	**13**	**– 3 232**	**– 3 675**	**– 3 583**
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	**177**	**83**	**260**	**30**	**182**

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Excluding the specified purpose accounts.

3. NON-BUDGETARY TRANSACTIONS

The government's non-budgetary transactions consist of transactions that affect borrowing requirements but not revenue and expenditure.

For 2006-2007, consolidated non-budgetary requirements amount to $1.6 billion, an increase of $1.0 billion compared with the 2006-2007 Budget forecasts. This increase stems notably from the retroactive adjustments associated with the pay equity settlement paid to government employees in March 2007.

For 2007-2008 and 2008-2009, consolidated non-budgetary requirements remain high, i.e. $1.1 billion for 2007-2008 and $972 million for 2008-2009, owing to substantial capital investments in, among other things, the road system.

TABLE C.14

Summary of consolidated non-budgetary transactions[1, 2]
(millions of dollars)

	March 2006 Budget		May 2007 Budget[P]		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
CONSOLIDATED REVENUE FUND					
Investments, loans and advances	– 1 497	– 247	– 1 744	– 1 385	– 1 409
Capital expenditures	– 78	– 8	– 86	– 113	– 87
Retirement plans	2 257	161	2 418	2 129	2 095
Other accounts	– 5	– 609	– 614	– 101	83
Total	**677**	**– 703**	**– 26**	**530**	**682**
CONSOLIDATED ORGANIZATIONS					
Investments, loans and advances	2	– 423	– 421	– 142	– 124
Capital expenditures	– 1 171	– 137	– 1 308	– 1 867	– 1 201
Other accounts	– 77	247	170	388	– 329
Total	**– 1 246**	**– 313**	**– 1 559**	**– 1 621**	**– 1 654**
TOTAL NON-BUDGETARY TRANSACTIONS					
Investments, loans and advances	– 1 495	– 670	– 2 165	– 1 527	– 1 533
Capital expenditures	– 1 249	– 145	– 1 394	– 1 980	– 1 288
Retirement plans	2 257	161	2 418	2 129	2 095
Other accounts	– 82	– 362	– 444	287	– 246
TOTAL CONSOLIDATED NON-BUDGETARY REQUIREMENTS	**– 569**	**– 1 016**	**– 1 585**	**– 1 091**	**– 972**

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.
2 The Generations Fund does not affect non-budgetary transactions.

❑ Investments, loans and advances

For 2006-2007, consolidated financial requirements for investments, loans and advances amount to $2.2 billion. The forecasts for 2007-2008 and 2008-2009 stand at $1.5 billion.

For 2006-2007, financial requirements for the investments, loans and advances of the **Consolidated Revenue Fund** total $1.7 billion, an increase of $247 million compared with the forecasts in last year's Budget. This increase can be attributed primarily to the fact that the government's revenue includes all of the increase in Hydro-Québec's profits, while only part of these profits were paid to the government as dividends.

Financial requirements arising from the investments, loans and advances of **consolidated organizations** grew by $423 million in 2006-2007 because of, among other things, additional investments made by Investissement Québec.

❑ Capital expenditures

For 2006-2007, financial requirements arising from the investments of departments, agencies and special funds amount to $2.5 billion. Taking into account a depreciation expense of $1.1 billion for these capital expenditures, the financial requirements associated with them total $1.4 billion.

TABLE C.15

Reconciliation of 2006-2007 capital investments and financial requirements[P]
(millions of dollars)

	Level of investment	Depreciation	Financial requirements (capital expenditures)
Departments and agencies	– 314	228	– 86
Special funds	– 1 612	578	– 1 034
Organizations other than budget-funded organizations	– 528	254	– 274
TOTAL	**– 2 454**	**1 060**	**– 1 394**

P: Preliminary.

These financial requirements are explained largely by investments of $1.3 billion in road infrastructure financed by the Fonds de conservation et d'amélioration du réseau routier. The additional investments in the road system also explain the increase in financial requirements in 2007-2008.

❑ Retirements plans

For 2006-2007, the retirement plans show a surplus of $2.4 billion, which reduces the government's financing needs. This represents an increase of $161 million compared with the figure forecast in the last Budget.

For 2007-2008 and 2008-2009, the retirement plans help to reduce financing needs by $2.1 billion per year.

❑ Other accounts

The $362-million increase in consolidated requirements for other accounts is due mainly to the retroactive adjustments paid in March 2007 following the pay equity settlement. The impact of these adjustments on financial requirements was offset in part by the budgetary surplus allocated to the reserve.

4. CONSOLIDATED NET FINANCIAL REQUIREMENTS

Overall, net financial requirements represent the funds the government has to borrow in a given fiscal year to finance the budgetary balance and non-budgetary transactions.

As a whole, consolidated net financial requirements stand at $978 million in 2006-2007, $438 million in 2007-2008 and $232 million in 2008-2009.

— The 2007-2008 Budget anticipates net financial requirements of $257 million in 2006-2007 for the **Consolidated Revenue Fund**. Net financial surpluses of $500 million are forecast for subsequent years.

— The net financial requirements of **consolidated organizations** stand at $1.3 billion for 2006-2007, $1.6 billion for 2007-2008 and $1.5 billion for 2008-2009. These requirements arise mainly from investments made by the Fonds de conservation et d'amélioration du réseau routier.

— The net results of the **Generations Fund** are $578 million for 2006-2007, $653 million for 2007-2008 and $740 million for 2008-2009.

TABLE C.16

Consolidated net financial requirements[1]
(millions of dollars)

	March 2006 Budget		May 2007 Budget[P]		
	2006-2007	Adjustments	2006-2007	2007-2008	2008-2009
Consolidated budgetary balance	74	533	607	653	740
Consolidated non-budgetary requirements	– 569	– 1 016	– 1 585	– 1 091	– 972
CONSOLIDATED NET FINANCIAL REQUIREMENTS	**– 495**	**– 483**	**– 978**	**– 438**	**– 232**
Including:					
Consolidated Revenue Fund	500	– 757	– 257	500	500
Consolidated organizations	– 1 069	– 230	– 1 299	– 1 591	– 1 472
Generations Fund	74	504	578	653	740

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

Section D

Update on Federal Transfers

1. Substantial Progress Since 2003 ..... D.3
2. A Thorough Reform of Equalization D.5
3. Transfers for Post-Secondary Education and Other Social Programs D.10
4. Other Changes Announced by the Federal Government D.16
5. Limiting Federal Spending Power D.17
6. Conclusion D.18

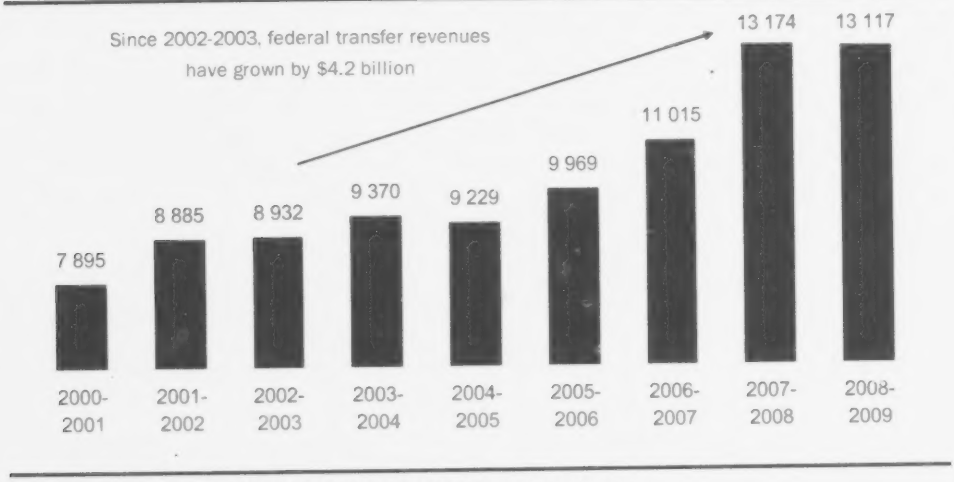
1. SUBSTANTIAL PROGRESS SINCE 2003

Over the last four years, the issue of the fiscal imbalance has been at the heart of inter-governmental relations in Canada. This issue has been examined by First Ministers, Ministers of Finance and a number of experts, including the federal government's Expert Panel on Equalization and the Council of the Federation's Advisory Panel on Fiscal Imbalance. The federal budget of last March introduced several major changes to federal transfers.

Further to these changes, Québec's federal transfer revenues should reach a record of $13.2 billion in 2007-2008. This is an increase of $4.2 billion (47.5%) compared to 2002-2003 and $2.2 billion (19.6%) compared to 2006-2007.

CHART D.1

Québec's federal transfer revenues[P]
(millions of dollars)



P: Preliminary results in 2006-2007 and projections for subsequent years.
Source: Ministère des Finances du Québec.

Compared to the March 2006 budget, the adjustments to Québec's federal transfer revenues arising from federal government announcements amount to $2.0 billion in 2007-2008 and $1.9 billion in 2008-2009. Most of the increase is attributable to improvements made to the equalization program.

TABLE D.1

Adjustments to Québec's federal transfer revenues compared to the March 2006 budget[P]
(millions of dollars)

	2006-2007	2007-2008	2008-2009
Federal transfers (March 2006 budget)	**10 796**	**11 148**	**11 281**
Equalization:			
May 2, 2006 federal budget	185	191	198
January 16, 2007 federal announcement	—	729	754
March 19, 2007 federal budget	—	698	934
	185	1 618	1 886
Transfers for post-secondary education and other social programs:			
May 2, 2006 federal budget trust	—	235	—
March 19, 2007 federal budget	—	58	245
	0	293	245
Other measures:			
Other trusts of the May 2, 2006 federal budget	—	330	12
March 19, 2007 federal budget trust	—	42	42
End of the agreement on day care centres	—	– 270	– 269
	0	102	– 215
Impact of the federal government's announcements	**185**	**2 013**	**1 916**
Other adjustments	34	13	– 80
FEDERAL TRANSFERS (MAY 2007 BUDGET)	**11 015**	**13 174**	**13 117**

P: Preliminary results in 2006-2007 and projections for subsequent years.
Source: Ministère des Finances du Québec.

This section provides an update on federal transfers and explains the main changes made by the federal government in its last budget. It also considers the issues that will be discussed over the coming years.

2. A Thorough Reform of Equalization

In his March 19, 2007 budget, the federal Minister of Finance announced a thorough reform of the equalization program on the basis of the recommendations made by the Expert Panel on Equalization chaired by Al O'Brien. Reform of the equalization program was Québec's top priority in the discussions held over the past year and the changes announced by the federal government broadly meet Québec's expectations.

❑ Main characteristics of the new program

From 2004-2005 to 2006-2007, the equalization program did not evolve to reflect the disparities in fiscal capacity among the provinces, but instead was indexed using a factor of 3.5% set by the federal government. This so-called "closed envelope" approach was seriously criticized.

The federal government announced that it would be ending this approach as of 2007-2008 and returning equalization to a principled, formula-based program that would be fairer in calculating payments to the provinces.

The main features of the new program are:

— The fiscal capacity of each province continues to be measured by the revenues it could obtain if it applied the average tax rates of the ten provinces to its tax bases.

— However, equalization will henceforth bridge the gap between the fiscal capacity of each province thus measured and the average fiscal capacity of the ten provinces (also called the "ten-province standard").

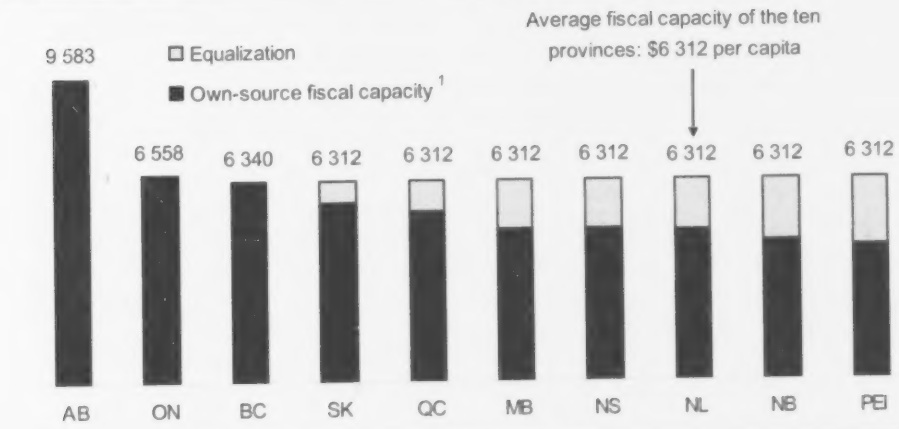
— This formula applies to all the revenues collected by the provinces, apart from the exclusion of 50% of revenues from natural resources (renewable and non-renewable) and 100% of revenues from user fees.

— A province with a fiscal capacity greater than the ten-province standard receives no equalization.

Accordingly, because of the equalization program, and including only 50% of revenues from natural resources, all the provinces have as a minimum the average fiscal capacity of the ten provinces, estimated at $6 312 per capita in 2007-2008.

CHART D.2

Fiscal capacity of the provinces after equalization to the ten-province standard, 2007-2008
(dollars per capita)



1 Calculated by including 50% of revenues from natural resources and excluding revenues from user fees.
Source: Department of Finance Canada.

However, even if only 50% of revenues from natural resources are included in the calculation of equalization, in reality, the effective fiscal capacity of the provinces includes 100% of revenues from natural resources, as well as the revenues arising from agreements on offshore resources in the case of Newfoundland and Labrador and Nova Scotia.

In this context, to avoid a situation where a province receiving equalization has a per capita fiscal capacity greater than a province that does not receive equalization, the federal government introduced a "fiscal capacity cap" based on the effective fiscal capacity of a recipient province, calculated by including all its revenues (including 100% of revenues from natural resources and revenues from the agreements on offshore resources). This capping mechanism was recommended by the federal government's Expert Panel on Equalization.

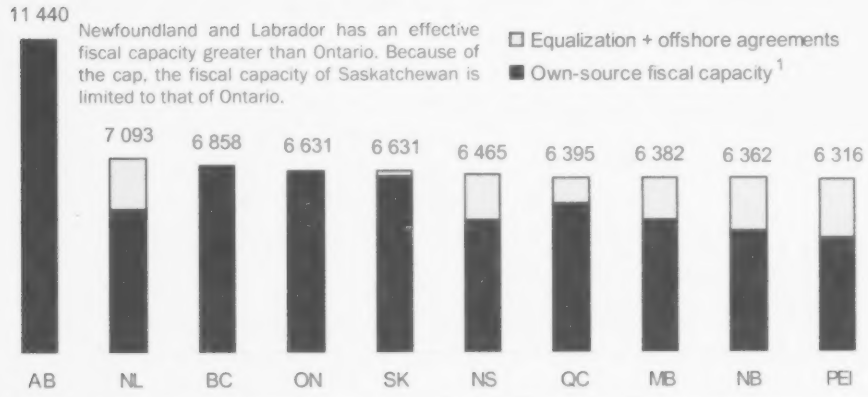
In 2007-2008, only Saskatchewan is affected by this capping mechanism. Without the cap, Saskatchewan ($7 085 per capita) would have had a greater fiscal capacity than Ontario ($6 631 per capita), a province that receives no equalization.

However, Newfoundland and Labrador ($7 093 per capita) has a greater fiscal capacity than Ontario. The federal government has offered Newfoundland and Labrador and Nova Scotia a choice between the former uncapped program and the new equalization program. For now, Newfoundland and Labrador has opted for the former system and accordingly the capping mechanism does not apply to that province.

In its last budget, Nova Scotia opted for the new system. However, its fiscal capacity ($6 465 per capita) is less than Ontario's, so it is not affected by the capping mechanism. The federal government has given Nova Scotia one year to reconsider its decision if it so wishes.

CHART D.3

Fiscal capacity of the provinces after equalization and application of the "fiscal capacity cap" mechanism, 2007-2008
(dollars per capita)



1 Calculated by including 100% of revenues from natural resources and excluding revenues from user fees.
Source: Department of Finance Canada.

❑ A new measure of fiscal capacity for the property tax base

For more than 20 years, Québec has argued that the measure of provincial fiscal capacity for the residential property tax base should be based on the provinces' actual taxation practices, namely, market value assessment of residences. The federal government has acted on Québec's request, which explains a significant part of the increase in Québec's equalization revenues arising from the March 2007 federal budget.

❑ A major simplification of the program

The new equalization program has also been simplified in many ways. The number of tax bases has been reduced from 33 to 5 (personal income tax, business income tax, consumption tax, property tax, natural resource revenues). The federal government has thus reclassified most of the sources of provincial revenue. For instance, the provinces' payroll tax revenues, which used to be included in the payroll tax base, will now be included in the personal income tax base.

Moreover, the stability and predictability of equalization revenues will also be improved through two new features.

— Equalization revenues for a year will be determined by the average of the fiscal capacities of the provinces for three prior years. For instance, the equalization entitlements of the provinces for 2007-2008 were calculated on the basis of the weighted average of the fiscal capacities of the provinces for the years 2003-2004 (25% weighting), 2004-2005 (25% weighting) and 2005-2006 (50% weighting). This smoothing mechanism will limit the major year-to-year fluctuations in equalization payments often seen in the past.

TABLE D.2

Operation of the smoothing mechanism for fiscal capacities that enter into the calculation of equalization
(as a percentage of the fiscal capacities used in the calculation)

2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Year of payment
25%	25%	50%	—	—	2007-2008
—	25%	25%	50%	—	2008-2009
—	—	25%	25%	50%	2009-2010

Source: Department of Finance Canada.

— Equalization entitlements for a year will be estimated in the fall of the preceding year and then never be adjusted. For instance, Québec's final equalization entitlements for 2008-2009 will be known in the fall of 2007.

❑ An issue remains: the treatment of natural resources

As the O'Brien Report recommended, the federal government decided to exclude 50% of provincial revenues from the exploitation of renewable and non-renewable natural resources. For Québec, the inclusion of natural resources remains an important issue. Moreover, as the O'Brien Report pointed out:

> *The Panel also has concerns about the potential for growing economic disparities in the country as a result of continuing high oil and gas prices. Our recommendations provide a balanced solution. But if oil and gas prices in particular, stay high over the longer term, disparities among provinces with and without resources will increase and become a source of growing friction. The potential of this issue to undermine the future of Equalization is high, particularly as provinces seek special deals similar to the Newfoundland and Labrador and Nova Scotia Offshore Accords. ... It's up to the federal government and the provinces to address these issues over the longer term and determine how they will, together, deal with the potential for growing disparities across our nation.* [1]

Accordingly, the Québec government intends to follow developments in the equalization program and offshore resources agreements closely over the coming years to ensure that the program fulfils its role in a fair manner for all the provinces.

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1 EXPERT PANEL ON EQUALIZATION AND TERRITORIAL FORMULA FINANCING, *Achieving a National Purpose: Putting Equalization Back on Track*, p. 77.

3. TRANSFERS FOR POST-SECONDARY EDUCATION AND OTHER SOCIAL PROGRAMS

The March 2007 federal budget made many significant changes to transfers for post-secondary education and other social programs.

❑ A new formula for allocating funds among the provinces

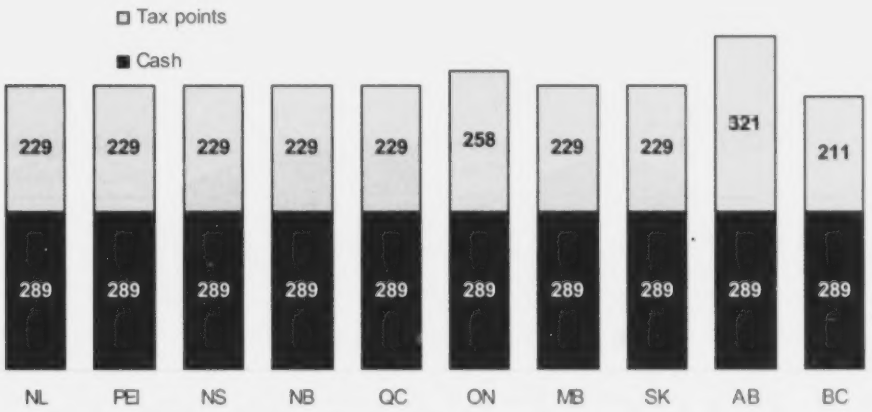
The federal government announced that the Canada Social Transfer (CST), which funds in particular post-secondary education and social assistance, will henceforth be allocated on a purely per capita basis as of 2007-2008. This means that, for the allocation of funds among the provinces, the federal government will no longer take into account the value of the tax points transferred to the provinces in 1977. The federal government has undertaken to do the same thing for the Canada Health Transfer (CHT) as of 2014-2015, i.e. once the health agreement signed by the First Ministers in September 2004 expires.

To implement this change without penalizing the provinces, the federal government decided to increase the cash transfers of the two provinces that received less than the others because of the higher value of their tax points, namely Ontario and Alberta. These two provinces will share $778 million in 2007-2008, i.e. $445 million for Ontario and $333 million for Alberta.

Although it no longer uses them to allocate the CST among the provinces, the federal government still considers that the value of the tax points transferred to the provinces in 1977 constitutes a federal contribution to provincial spending on post-secondary education, social assistance and other social programs. As a result, Ontario and Alberta have more resources to fund these programs than the other provinces.

CHART D.4

Canada Social Transfer, 2007-2008[1]
(dollars per capita)



1 The value of tax points takes account of the equalization "associated" with these tax points that is paid under the equalization program. That explains why tax points are worth $229 per capita in the seven provinces that receive equalization in 2007-2008, despite the economic inequalities observed among these provinces. Tax points are worth more in Ontario and Alberta because these provinces are more affluent than the average of the ten provinces. In British Columbia, the value of tax points is lower than in the other provinces. This stems from the fact that when all revenue sources are considered, this province is not eligible to receive equalization in 2007-2008. Accordingly, the federal government does not grant equalization associated with CST tax points to British Columbia.

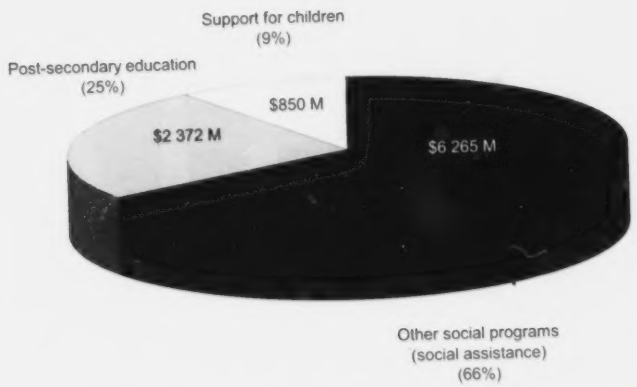
Source: Department of Finance Canada.

❑ A more transparent allocation of the CST to the programs it is designed to fund

The federal government has also improved the transparency of its contribution to the programs funded by the CST. The federal government is allocating 25% of the CST to post-secondary education, almost 9% to early childhood and 66% to social assistance.

CHART D.5

Components of the Canada Social Transfer, 2007-2008
(millions of dollars and percent)



Source: Department of Finance Canada.

❑ An increase in the CST for all the provinces as of 2008-2009

The federal government has also announced for Canada as a whole an increase in the CST of $1 050 million in 2008-2009, i.e. $800 million for post-secondary education and $250 million for day care centres. Moreover, the federal government announced that the envelope of the CST would be indexed by 3% per year as of 2009-2010.

These increases are a step in the right direction. However, it is important to point out that transfers to the provinces for post-secondary education and other social programs are still less than what they were in 1994-1995, i.e. before the federal cuts. The shortfall is even greater if inflation during this period is taken into account.

TABLE D.3

Changes in the Canada Social Transfer compared to 1994-1995
(millions of dollars)

	CST amount for all of Canada	Difference compared to 1994-1995 level	Difference compared to 1994-1995 level including inflation
2005-2006	8 415	– 2 231	– 4 919
2006-2007	8 500	– 2 146	– 5 037
2007-2008	9 487	– 1 159	– 4 318
2008-2009	10 537	– 109	– 3 528

Sources: Department of Finance Canada and ministère des Finances du Québec.

❑ Federal contribution to social assistance spending

All the changes made to the CST described above shed light on certain features of the federal contribution to the provinces' spending on social assistance.

First, the federal contribution per recipient of social assistance varies widely among the provinces. This contribution, which is $3 730 per recipient for Canada as a whole, is $2 829 in Québec and $3 610 in Ontario, compared with $11 508 in Alberta.

TABLE D.4

Federal contribution to provincial social assistance spending, 2007-2008
(millions of dollars and dollars per social assistance recipient)

	CST component funding social assistance		Social assistance recipients		Federal contribution
	$ millions	% Canada	Number	% Canada	$ per social assistance recipient
Newfoundland and Labrador	97	1.5	48 500	2.9	2 001
Prince Edward Island	26	0.4	6 900	0.4	3 834
Nova Scotia	179	2.8	52 300	3.1	3 414
New Brunswick	143	2.3	45 300	2.7	3 158
Québec	1 466	23.4	518 200	30.8	2 829
Ontario	2 442	39.0	676 500	40.3	3 610
Manitoba	225	3.6	60 900	3.6	3 703
Saskatchewan	187	3.0	48 700	2.9	3 847
Alberta	649	10.4	56 400	3.4	11 508
British Columbia	830	13.2	149 300	8.9	5 559
Territories	20	0.3	16 800	1.0	1 186
CANADA	**6 265**	**100.0**	**1 679 800**	**100.0**	**3 730**

Note: Figures may not add up to the totals shown because of rounding off.
Sources: Department of Finance Canada and National Council of Welfare.

Second, given how the CST currently works, the federal contribution will not respond to fluctuations in the economic situation which, in the context of a future economic slowdown, will place the entire burden related to an increase in social assistance costs on the provinces.

❑ Discussions must continue

In this context, the Québec government is of the view that discussions must continue with the federal government and the other provinces on the amount of transfers for post-secondary education and other social programs as well as on the issues relating to the allocation of these transfers, particularly regarding social assistance.

4. Other Changes Announced by the Federal Government

As part of its March 2007 budget, the federal government also announced a number of new trusts and specific new transfers for health, climate change, labour market training and infrastructures. The Québec government welcomes these initiatives provided it can use the funding as it wishes in exercising its jurisdictions.

Concerning infrastructures more particularly, if the substantial amounts that have been announced are to truly contribute to correcting the fiscal imbalance, there must be assurance that these transfers will not generate additional pressure on provincial public finances.

In this context, the infrastructure funding earmarked for the provinces must be able to be used:

— to correct the maintenance deficit of existing assets, which are as important for economic growth as the development of new infrastructures;

— to accelerate planned investments by the provinces under their infrastructure spending plans.

Moreover, to accelerate investments and streamline the administrative process, the infrastructure funds should be paid to the provinces using a block-funding mechanism rather than through numerous administrative agreements focusing on specific projects.

5. LIMITING FEDERAL SPENDING POWER

The Québec government welcomes the intention voiced on many occasions by the federal government, and reiterated in the March 2007 federal budget, to limit the federal spending power. Québec intends to work toward concluding an agreement in this regard:

— For Québec, any withdrawal by the federal government from a shared-cost program, in the name of better compliance with the respective jurisdictions of the two orders of government, must be accompanied by financial compensation.

— The federal government must grant every province that chooses not to participate in a federal initiative an unconditional right of withdrawal with full fiscal or financial compensation.

6. CONCLUSION

Since 2003, substantial progress has been made regarding federal transfers. By initiating a thorough reform of the equalization program in 2007-2008, the federal government has come a long way in meeting Québec's expectations in this regard.

Discussions must now continue on specific issues, in particular regarding the federal contribution for post-secondary education and social assistance, the use of new federal infrastructure funding and the limiting of federal spending power.

In the current context of openness, the Québec government intends to continue the discussions with the federal government and its other partners in the federation.

Section E

Debt, Financing and Debt Management

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1. DEBT

1.1 Total government debt as at March 31, 2007

The government's total debt consists of the consolidated direct debt, i.e. the debt contracted on financial markets, and the net retirement plans liability, minus the value of the Generations Fund.

Preliminary results show that the government's consolidated direct debt amounted to $96 452 million as at March 31, 2007.

The net retirement plans liability represents the retirement plans liability minus the balance of the retirement plans sinking fund (RPSF), an asset established to pay the retirement benefits of public and parapublic sector employees. As at March 31, 2007, the net retirement plans liability totalled $32 608 million.

Given that the funds accumulated in the Generations Fund amounted to $578 million as at March 31, 2007, the total debt was $122 413 million. This amount excludes pre-financing of $6 069 million that will be used to cover part of the borrowing requirements for 2007-2008.

TABLE E.1

Total government debt as at March 31, 2007[P]
(millions of dollars)

	Consolidated direct debt			Retirement plans				
	Consolidated Revenue Fund	Consolidated organizations	Total	Retirement plans liability	Less: retirement plans sinking fund	Net retirement plans liability	Less: Generations Fund	Total debt
Debt as at March 31, 2007	83 983	12 469	96 452	59 611	– 27 003	32 608	– 578	128 482
Pre-financing	– 6 069	—	– 6 069	—	—	—	—	– 6 069
TOTAL	**77 914**	**12 469**	**90 383**	**59 611**	**– 27 003**	**32 608**	**– 578**	**122 413**

P: Preliminary results.
Note: Table E.19 on page E.34 shows the transition from total debt to debt representing accumulated deficits.

1.2 Change in the total debt in 2006-2007

The government's total debt increased by $4 111 million in 2006-2007. Even though the government maintains a balanced budget, the debt continues to increase for the following reasons:

— First of all, the government makes investments, mainly in its corporations. It makes such investments through advances and direct capital outlays or by allowing these corporations to keep part of their profits to finance their own investments. In 2006-2007, the government's investments, loans and advances led to a $2 165-million increase in the debt.

— Secondly, the government makes investments in fixed assets (e.g. roads) that require borrowings. When these capital expenditures are made, they are posted to the government's balance sheet. Subsequently, they are gradually recorded as expenditures based on the useful life of the assets concerned. In 2006-2007, net capital expenditures led to a $1 394-million increase in the debt.

— Lastly, changes in some of the government's other asset and liability items, such as accounts payable and accounts receivable, raised the debt by $1 159 million in 2006-2007. In 2004-2005 and 2005-2006, these "Other factors" lowered the debt by $855 million and $605 million respectively.

The volatility of "Other factors" in recent years can be attributed mainly to pay equity:

— In 2004-2005, an amount of $673 million was recorded as a pay equity expenditure for 2001 to 2005. As a result, a budgetary deficit of $664 million was recorded in 2004-2005. Since this amount of $673 million did not give rise to a disbursement, an account payable was created, reducing the government's financial requirements in 2004-2005.

— In 2005-2006, a $498-million expenditure was recorded for pay equity to reflect the most recent data on the cost of the adjustments being contemplated. As in the previous year, this amount was not disbursed in 2005-2006 and an account payable of $498 million was created, thus reducing the government's financial requirements.

— In 2006-2007, the amounts relating to pay equity began to be disbursed, leading to a rise in financial requirements. These disbursements will continue in 2007-2008 and 2008-2009.

  — The box in the following table shows the portion of "Other factors" relating to pay equity. From 2004-2005 to 2008-2009, the sum of these amounts is nil, demonstrating that, in all, pay equity will not have an impact on the government's debt. Only those pay equity expenditures ($673 million) that gave rise to a budgetary deficit in 2004-2005 will increase the debt.

— From 2004-2005 to 2008-2009, the growth in the debt will have served essentially to finance investments, loans and advances ($7 386 million) and the government's net capital expenditures ($6 911 million).

TABLE E.2

Main factors responsible for the growth in total government debt
(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)	Investments, loans and advances	Net capital expenditures[1]	Other factors[2]	Including accounts payable in regard to pay equity	Generations Fund	Debt, end of year[3]	As a % of GDP
1998-1999	98 385	– 126	1 402	217	1 235			101 113	51.5
1999-2000	101 113	– 7	2 006	359	– 1 351			102 120	48.4
2000-2001	102 120	– 427	1 632	473	1 050			104 848	46.6
2001-2002	104 848	– 22	1 142	995	212			107 175	46.3
2002-2003	107 175	728	1 651	1 482	306			111 342	46.1
2003-2004	111 342	358	1 125	1 019	881			114 725	45.8
2004-2005	114 725	664	979	1 083	– 855	– 673		116 596	44.3
2005-2006	116 596	– 37	1 182	1 166	– 605	– 498		118 302	43.2
2006-2007P	118 302	– 29	2 165	1 394	1 159	684[4]	– 578	122 413	43.1
2007-2008P	122 413	—	1 527	1 980	– 48	410	– 653	125 219	42.3
2008-2009P	125 219	—	1 533	1 288	483	77	– 740	127 783	41.7

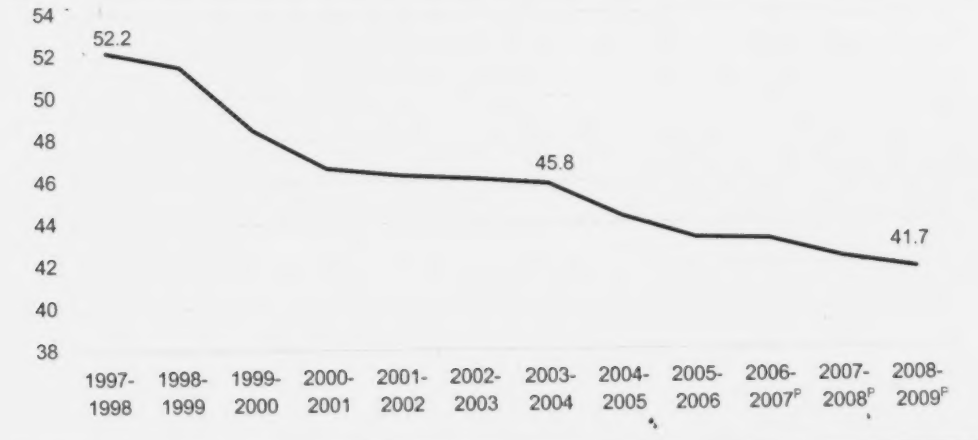
P: Preliminary results for 2006-2007 and forecasts for subsequent years.
Note: A positive entry indicates a financial requirement and a negative entry, a source of financing.
1 Capital expenditures made during the year minus the yearly depreciation expenditure.
2 Includes notably the change in "Other accounts," such as accounts receivable and accounts payable, as well as foreign exchange losses (gains) following the revaluation of the debt in foreign currency.
3 Excluding pre-financing.
4 This amount includes the settlement of accounts payable recorded in 2004-2005 and 2005-2006 ($1 171 million), as well as the recording of a new account payable (– $487 million) that will be disbursed in 2007-2008 ($410 million) and 2008-2009 ($77 million).

❑ The debt burden continues to decline

While the debt/GDP ratio was 52.2% in 1997-1998, it should be 41.7% in 2008-2009, which represents a decline of over 10 percentage points.

CHART E.1

Total government debt
(as a % of GDP)



P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1.3 Retirement plans

The Québec government participates financially in the retirement plans of its employees. As at December 31, 2005, these plans had 522 452 participants and 231 793 beneficiaries.

TABLE E.3

Retirement plans of public and parapublic sector employees as at December 31, 2005

	Active participants	Beneficiaries
Government and Public Employees Retirement Plan (RREGOP)	485 000	136 332
Pension Plan of Management Personnel (PPMP)	25 750	16 222
Other plans:		
Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	1 455	49 048
Civil Service Superannuation Plan (CSSP)	1 400	24 180
Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ)	5 200	4 112
Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 000	1 202
Pension Plan of the Judges of the Court of Québec (PPJCQ)	270	311
Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	255	90
Pension Plan of the Members of the National Assembly (PPMNA)	122	296
Total for other plans	11 702	79 239
TOTAL	**522 452**	**231 793**

Source: Commission administrative des régimes de retraite et d'assurances (CARRA).

These plans are defined benefit retirement plans, which means that they guarantee participants a certain level of income upon retirement. Benefits are calculated on the basis of participants' average income for the best paid years (generally five) and their number of years of service. The pension represents 2% of an employee's average income per year of service, for a maximum of 70%. Benefits are partially indexed to inflation.

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans. The government paid $3 533 million in 2006-2007 to cover its share of the benefits paid to its retired employees.

❑ Retirement plans liability

In its financial statements, the government includes the present value of the retirement benefits it will pay to its employees, taking into account the conditions governing their plans, as well as their years of service. This value is called the retirement plans liability.

CARRA performs actuarial valuations of the liability for each retirement plan in conformity with the rules set for the public sector by the Canadian Institute of Actuaries (CIA) and the Canadian Institute of Chartered Accountants (CICA).

The government's retirement plans liability amounted to $59 611 million as at March 31, 2007. It is important to note that this amount is recognized in full in the total government debt (see Table E.1).

TABLE E.4

Retirement plans liability
(millions of dollars)

	March 31, 2007[P]
Government and Public Employees Retirement Plan (RREGOP)	30 511
Pension Plan of Management Personnel (PPMP)	6 636
Other plans	22 464
RETIREMENT PLANS LIABILITY	**59 611**

P: Preliminary results.

❑ Annual retirement plans expenditure

As an employer, the government records annually its expenditure with regard to the retirement plans.

In 2006-2007, this expenditure totalled $1 809 million. It comprises two components:

— the net cost of vested benefits, that is, the present value of retirement benefits that employees have accumulated for work performed during the year, i.e. $1 429 million;

— the amortization of revisions to the government's actuarial obligations that arise from the updating of actuarial valuations, for a cost of $380 million in 2006-2007.

TABLE E.5

Retirement plans expenditure
(millions of dollars)

	2006-2007[P]
Net cost of vested benefits	1 429
Amortization of revisions arising from actuarial valuations	380
RETIREMENT PLANS EXPENDITURE	**1 809**

P: Preliminary results.

1.4 Retirement plans sinking fund

The retirement plans sinking fund (RPSF) was created in 1993. It is an asset that was established to pay the retirement benefits of public and parapublic sector employees.

As at March 31, 2007, the value of the RPSF stood at $27 003 million, $4 440 million more than the previous fiscal year. This increase is due to deposits of $3 000 million made by the government in 2006-2007 and investment income estimated at $1 440 million.

TABLE E.6

Change in the retirement plans sinking fund (RPSF)
(millions of dollars)

	Balance, beginning of year	Deposits	Investment income	Balance, end of year
1993-1994	—	850	4	854
1994-1995	854	—	−5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095[1]	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007[P]	22 563	3 000	1 440	27 003

P: Preliminary results.
1 Following the reform of government accounting, an amount of $81 million was posted to the net debt.

❑ Amounts deposited in the RPSF have no impact on the total debt

The government issues bonds on financial markets to make deposits in the RPSF. However, the amounts deposited in the RPSF do not affect the government's total debt.

Indeed, the amount of borrowings contracted to make deposits increases the direct debt. At the same time, however, these deposits reduce the net retirement plans liability by the same amount. Therefore, the net impact on the total debt is nil.

TABLE E.7

Illustration of the impact on the government's total debt of borrowing $1 billion on financial markets and depositing it in the RPSF[1]
(millions of dollars)

		Before deposit	After deposit	Change
(A)	Consolidated direct debt	89 383	90 383	1 000
	Retirement plans liability	59 611	59 611	0
	Less: RPSF	– 26 003	– 27 003	– 1 000
(B)	Net retirement plans liability	33 608	32 608	– 1 000
(C)	Total debt before Generations Fund (C=A+B)	122 991	122 991	0
(D)	Less: Generations Fund	– 578	– 578	0
(E)	**TOTAL DEBT (E=C+D)**	**122 413**	**122 413**	**0**

1 Illustration based on preliminary results as at March 31, 2007.

❑ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. The rates of return on funds managed by the Caisse de dépôt et placement du Québec are generally higher than interest rates on Québec government bonds issued to finance deposits in the RPSF. Therefore, the income of the RPSF, which is applied against the government's debt service, is usually higher than the additional interest charges that arise from new borrowings. This leads to a net decrease in the government's debt service.

❑ A flexible deposit policy

In December 1999, as part of an agreement concluded for the renewal of employees' collective agreements, the government set the objective that the funds accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the flexibility needed to apply this policy. Deposits in the RPSF are made only when conditions on financial markets are favourable, particularly with respect to interest rates and market receptiveness to bond issues.

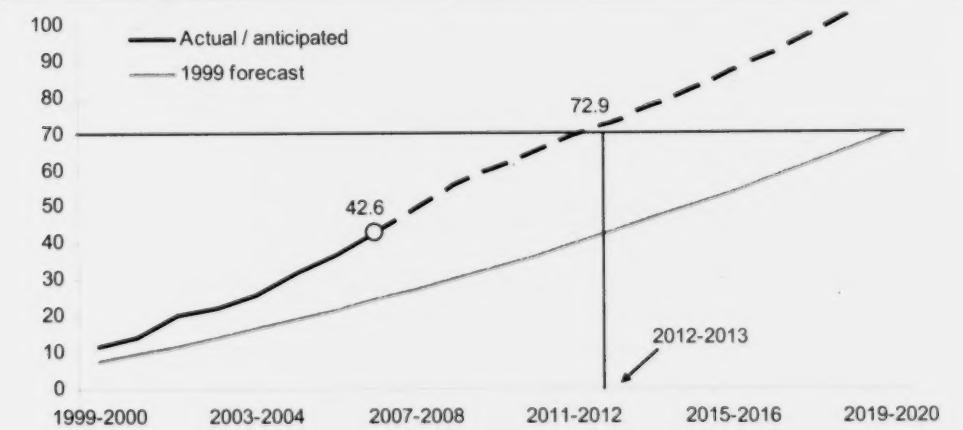
❑ Results of deposits made to date

With a value of $27 003 million as at March 31, 2007, the assets of the RPSF are now equal to nearly 43% of the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees.

Given the deposits and rates of return anticipated in the coming years, the target of 70% should be reached seven years earlier than expected, i.e. in 2012-2013, which is a major improvement over the target set in December 1999. Indeed, the RPSF should represent 100% of actuarial obligations in 2020.

CHART E.2

The RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees
(percent)



❑ Investment policy

The assets of the RPSF are managed by the Caisse de dépôt et placement du Québec in accordance with the investment policy established by the Minister of Finance.

This policy provides for investments in a diversified portfolio that includes notably fixed income securities (e.g. bonds), investments in stock markets and investments in other investment categories (e.g. capital assets, private investments and infrastructure).

1.5 The Generations Fund

The Generations Fund was created in June 2006 by the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund will be dedicated exclusively to repaying the debt.

As at March 31, 2007, the balance of the Generations Fund amounted to $578 million.

Section I presents the results of the Generations Fund in accordance with the requirements of the Act.

❑ Investment policy

The assets of the Generations Fund are managed by the Caisse de dépôt et placement du Québec in accordance with the investment policy established by the Minister of Finance.

This policy provides for investments in a diversified portfolio that includes notably fixed income securities (e.g. bonds), investments in stock markets and investments in other investment categories (e.g. capital assets, private investments and infrastructure).

1.6 Québec's credit rating

The Québec government is rated by five credit rating agencies.

TABLE E.8

Québec's credit rating

Agency	Rating	Rating outlook
Moody's	Aa2	Stable
Fitch	AA–	Stable
Standard & Poor's	A+	Stable
Dominion Bond Rating Service (DBRS)	A (high)	Stable
Japan Credit Rating Agency	AA+	Stable

In 2006, two credit rating agencies, Moody's and DBRS, raised Québec's credit rating.

The decisions of these agencies were based on the following factors:

— a substantial improvement in the government's financial position in recent years;

— a commitment by the government to continue along this path;

— rigorous spending management, particularly through the settlement of collective agreements until 2010;

— the development of a clear debt burden reduction strategy with the creation of the Generations Fund, which will make it possible to reduce the debt/GDP ratio;

— the size and diversification of the economy.

1.7 Long-term public sector debt

Long-term public sector debt includes the government's total debt as well as the debt of the health and social services and education networks, Hydro-Québec, municipalities and other government enterprises. This debt has served notably to finance public infrastructure, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

Preliminary results show that the public sector debt amounted to $191 720 million as at March 31, 2007.

TABLE E.9

Long-term public sector debt as at March 31
(millions of dollars)

	2003	2004	2005	2006	2007[P]
Total government debt[1]	111 342	114 725	116 596	118 302	122 413
Health and social services and education networks	11 008	10 877	12 301	13 078	14 138
Hydro-Québec	35 639	34 348	33 032	32 367	32 674
Other government enterprises	3 955	3 575	3 726	3 540	3 564
Municipalities and municipal bodies[2]	16 530	17 212	17 053	18 347	18 931
TOTAL	**178 474**	**180 737**	**182 708**	**185 634**	**191 720**
As a % of GDP	**73.9**	**72.1**	**69.5**	**67.9**	**67.5**

P: Preliminary results.
1 Excluding pre-financing.
2 Includes the debt of the Société québécoise d'assainissement des eaux.

2. FINANCING

Borrowings in fiscal 2006-2007 totalled $14 815 million, i.e. $13 236 million for the Consolidated Revenue Fund and $1 579 million for the Financing Fund. Borrowings contracted for the Financing Fund are used to meet the financing needs of consolidated organizations and certain government enterprises. It should be noted that pre-financing of $6 069 million was realized in the last few months of the fiscal year because of particularly favourable conditions on financial markets. It will be used to cover part of the borrowing program in 2007-2008.

2.1 Financing strategy

The government aims to contract borrowings at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by market, financial instrument and maturity.

2.1.1 Diversification by market

Financing transactions are carried out regularly on most markets, i.e. in Canada, the United States, Europe and Asia.

In 2006-2007, the government contracted 17.4% of its borrowings on foreign markets in five different currencies:

— two borrowings in US dollars, one for US$1 500 million in November 2006 (CAN$1 702 million) and the other for US$100 million in August 2006 (CAN$110 million);

— two borrowings in Swiss francs, one for 300 million Swiss francs in December 2006 (CAN$286 million) and the other for 200 million Swiss francs in February 2007 (CAN$182 million);

— one borrowing for 100 million euros in April 2006 (CAN$142 million);

— one borrowing for 750 million Hong Kong dollars in February 2007 (CAN$114 million), Québec's first issue on this market;

— one borrowing for 5 000 million yen in February 2007 (CAN$49 million).

TABLE E.10

Gouvernement du Québec
Summary of long-term borrowings in 2006-2007[P]
(millions of dollars)

Currency	Consolidated Revenue Fund	Financing Fund		Total	%
		Consolidated organizations	Government enterprises		
Canadian dollar					
Public issues	5 756	1 087	52	6 895	56.4
Private borrowings	3 430	440	—	3 870	31.6
Savings products	1 006	—	—	1 006	8.2
Immigrant Investor Program	432	—	—	432	3.5
Canada Pension Plan Investment Fund	7	—	—	7	0.1
Amount received (disbursed) under interest rate and currency swap agreements	20	—	—	20	0.2
Sub-total	**10 651**	**1 527**	**52**	**12 230**	**82.6**
Other currencies					
US dollar	1 812	—	—	1 812	70.1
Hong Kong dollar	114	—	—	114	4.4
Euro	142	—	—	142	5.5
Swiss franc	468	—	—	468	18.1
Yen	49	—	—	49	1.9
Sub-total	**2 585**	**—**	**—**	**2 585**	**17.4**
TOTAL	**13 236**	**1 527**	**52**	**14 815**	**100.0**

P: Preliminary results.

2.1.2 Diversification by instrument

To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of public bond issues, private borrowings and savings products.

The long-term instruments used in 2006-2007 consisted mainly of public issues on the Canadian market (46.5%), private borrowings on the Canadian market (26.1%) and borrowings on foreign markets (17.4%).

CHART E.3

Borrowings in 2006-2007[P] by instrument

P: Preliminary results.

2.1.3 Diversification by maturity

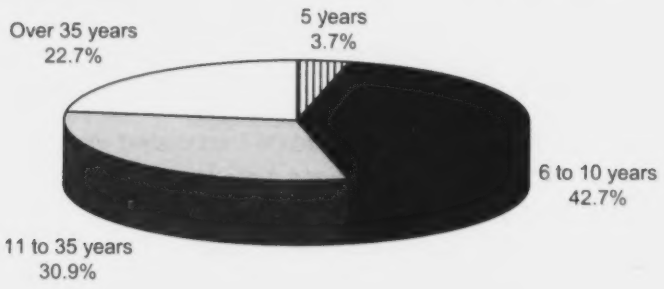
Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and thus avoid overly wide fluctuations in the borrowing program.

In 2006-2007, 42.7% of borrowings contracted had a maturity of between 6 and 10 years; 30.9%, between 11 and 35 years; and 22.7%, over 35 years.

Over the past year, the government made $2 912 million worth of borrowings with a maturity of 50 years or more.

CHART E.4

Borrowings in 2006-2007[P] by maturity

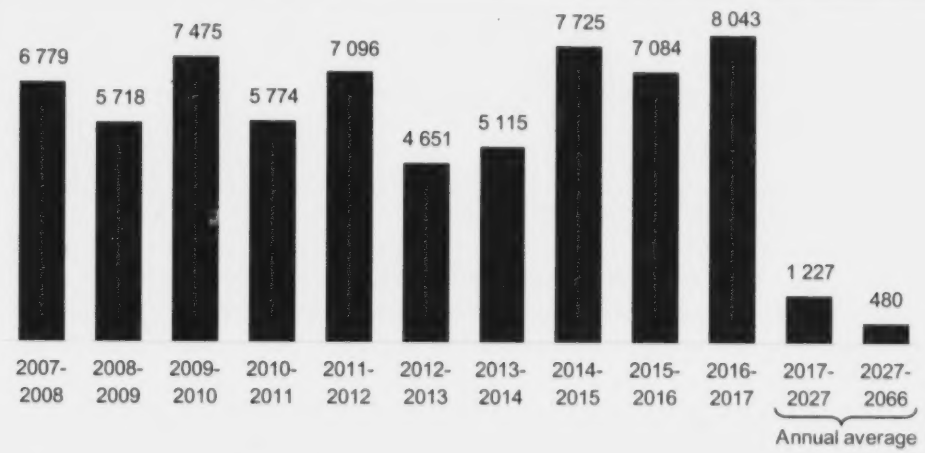


P: Preliminary results.

This diversification by maturity has an impact on the maturity of the debt shown in the following chart. As at March 31, 2007, the average maturity of the debt was about 12 years.

CHART E.5

Maturity of the debt as at March 31, 2007[P]
(millions of dollars)



P: Preliminary results.
Note: Direct debt of the Consolidated Revenue Fund and debt incurred to make advances to the Financing Fund.

2.2 Financing programs

2.2.1 The government

The financing program of the Consolidated Revenue Fund makes it possible to refinance maturing borrowings, contribute to the retirement plans sinking fund and meet new financial requirements, particularly for capital investments and investments in government corporations.

The Financing Fund makes loans to consolidated organizations (e.g. Fonds de conservation et d'amélioration du réseau routier, Investissement Québec, Société Immobilière du Québec) and to certain government enterprises (e.g. Corporation d'hébergement du Québec).

In 2006-2007, the government's financing program reached $14 815 million, including $6 069 million in pre-financing realized over the last few months of the year to take advantage of particularly favourable conditions on financial markets.

The financing program is expected to amount to $5 167 million in 2007-2008. It would have amounted to $11 236 million had there not been any pre-financing. In 2008-2009, the financing program will total $12 437 million.

TABLE E.11

The government's financing program
(millions of dollars)

	2006-2007[P]	2007-2008[P]	2008-2009[P]
Consolidated Revenue Fund			
Net financial requirements (surplus)[1]	257	– 500	– 500
Repayment of borrowings	5 154	5 110	5 603
Change in cash position	– 2 684	– 6 069	—
Retirement plans sinking fund	4 440	4 876	5 334
Pre-financing	6 069	—	—
Sub-total	**13 236**	**3 417**	**10 437**
Financing Fund	**1 579**	**1 750**	**2 000**
TOTAL	**14 815**	**5 167**	**12 437**

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.
1 Excluding consolidated organizations.

2.2.2 Financement-Québec

Financement-Québec makes borrowings on financial markets to meet the needs of institutions in the health and social services and education networks. The borrowings of Financement-Québec are guaranteed by the Québec government.

In 2006-2007, borrowings by Financement-Québec amounted to $2 529 million.

Financement-Québec's financing program is expected to total $2 000 million in 2007-2008 and 2008-2009.

TABLE E.12

Financement-Québec's financing program
(millions of dollars)

2006-2007P	2007-2008P	2008-2009P
2 529	**2 000**	**2 000**

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

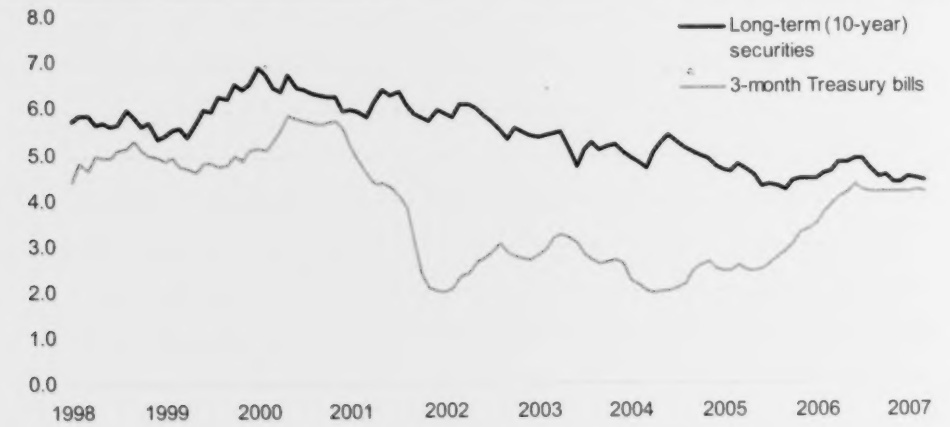
2.2.3 Yield

The following charts show the change in yield on 10-year bonds and 3-month Treasury bills, as well as the yield spread on long-term securities.

Over the past year, the spread between Québec long-term and short-term yields has declined significantly, reflecting the change in interest rates observed on financial markets. In addition, since the early 2000s, the yield on long-term Québec securities has dropped from 6.9% to 4.4%, making it possible to refinance borrowings at better interest rates.

CHART E.6

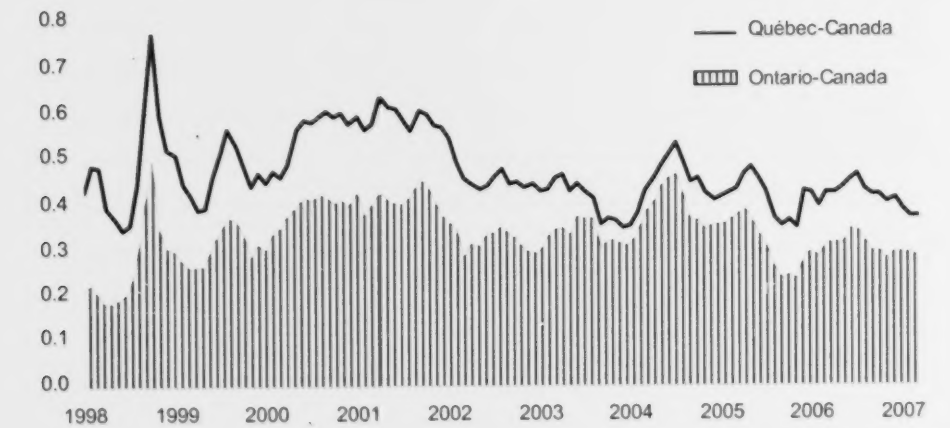
Yield on Québec securities
(percent)



Sources: PC-Bond and ministère des Finances du Québec.

CHART E.7

Yield spread on long-term (10-year) securities
(percent)



Source: PC-Bond.

3. DEBT MANAGEMENT

The government's debt management strategy aims to minimize the cost of the debt and limit the risk related to fluctuations in foreign exchange and interest rates.

The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

Debt management enables the government to save money on debt service.

3.1 Structure of the debt by currency

As at March 31, 2007, the proportion of the government's total debt in Canadian dollars amounted to 93.2% and the proportion in foreign currency, 6.8%.

TABLE E.13

Structure of the total debt as at March 31, 2007[P]
(millions of dollars)

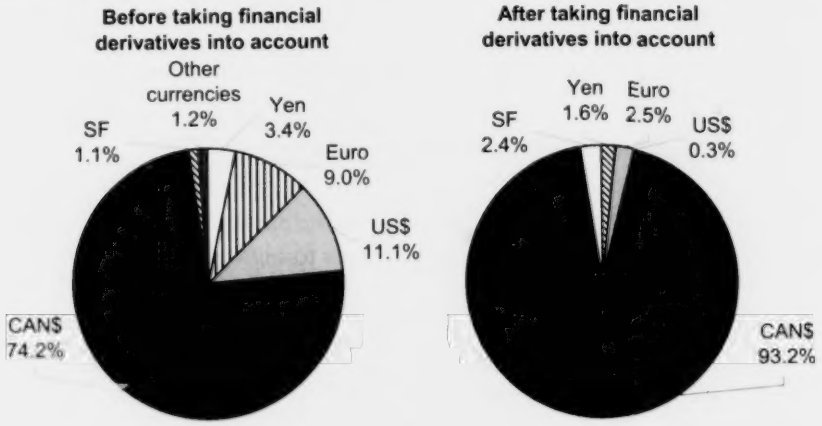
	Consolidated direct debt								
Currency	**Consolidated Revenue Fund**	%	**Consolidated organizations**	**Total**	%	**Net retirement plans liability**	**Less: Generations Fund**	**Total debt**	%
Canadian dollar	75 273	89.6	12 469	87 742	90.9	32 608	– 578	119 772	93.2
US dollar	382	0.5	—	382	0.4	—	—	382	0.3
Euro	3 144	3.7	—	3 144	3.3	—	—	3 144	2.5
Swiss franc	3 104	3.7	—	3 104	3.2	—	—	3 104	2.4
Yen	2 082	2.5	—	2 082	2.2	—	—	2 082	1.6
Pound sterling	– 2	—	—	– 2	—	—	—	– 2	—
Sub-total	**83 983**	**100.0**	**12 469**	**96 452**	**100.0**	**32 608**	**– 578**	**128 482**	**100.0**
Pre-financing	– 6 069		—	– 6 069		—	—	– 6 069	
TOTAL	**77 914**		**12 469**	**90 383**		**32 608**	**– 578**	**122 413**	

P: Preliminary results.

Before financial derivatives are taken into account, the proportion of the debt in foreign currency as at March 31, 2007 was 25.8%. After financial derivatives are taken into account, the proportion was 6.8%.

CHART E.8

Structure of the total debt by currency as at March 31, 2007P



P: Preliminary results.

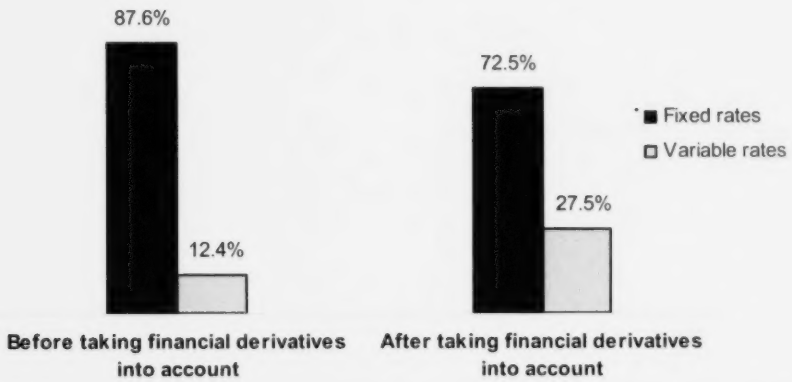
3.2 Structure of the debt by interest rate

The government diversifies its debt by keeping part of it at variable rates and part at fixed rates. Since short-term interest rates are generally lower than long-term rates, keeping part of the debt at variable rates makes it possible to achieve substantial savings on debt service.

Before financial derivatives are taken into account, the proportion of the total debt at variable rates was 12.4% as at March 31, 2007. After financial derivatives are taken into account, the proportion was 27.5%.

CHART E.9

Structure of the total debt by interest rate as at March 31, 2007P



P: Preliminary results.

4. ADDITIONAL INFORMATION ON FINANCING TRANSACTIONS AND DEBT

TABLE E.14

Summary of consolidated financing transactions
(millions of dollars)

	2006-2007P				
	March 2006 Budget	Preliminary results	Change	2007-2008P	2008-2009P
Change in cash position					
Consolidated Revenue Fund	2 590	– 3 385	– 5 975	6 069	—
Consolidated organizations	—	– 43	– 43	—	—
Total change in cash position	**2 590**	**– 3 428**	**– 6 018**	**6 069**	**—**
Net borrowings					
Consolidated Revenue Fund					
New borrowings	4 702	13 236	8 534	3 417	10 437
Repayment of borrowings	– 4 805	– 5 154	– 349	– 5 110	– 5 603
	– 103	8 082	8 185	– 1 693	4 834
Consolidated organizations					
New borrowings	1 527	1 971[1]	444	2 513	1 908
Repayment of borrowings	– 458	– 629	– 171	– 922	– 436
	1 069	1 342	273	1 591	1 472
Total net borrowings	**966**	**9 424**	**8 458**	**– 102**	**6 306**
Retirement plans sinking fund	**– 2 987**	**– 4 440**	**– 1 453**	**– 4 876**	**– 5 334**
Generations Fund	**– 74**	**– 578**	**– 504**	**– 653**	**– 740**
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	**495**	**978**	**483**	**438**	**232**

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.
1 Includes a $444-million increase in temporary borrowings.

TABLE E.15

Gouvernement du Québec
Borrowings for the Consolidated Revenue Fund in 2006-2007[P]

Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		%			$	%
142	€100	4.22[4]	April 3	2018-04-03	100.000	4.220
350[5]	—	Various	April 7	2056-12-01	100.084	4.829
346[5]	—	Various	April 11	2056-12-01	98.889	4.914
297	—	4.50	May 5	2016-12-01	96.390	4.942
551	—	5.75	May 10	2036-12-01	110.189	5.089
496[5]	—	Various	June 1	2056-12-01	99.289	4.831
294[5]	—	Various	June 7	2056-12-01	98.123	4.912
540	—	5.75	June 30	2036-12-01	107.918	5.227
106	—	4.50	August 22	2016-12-01	98.346	4.704
472	—	5.00	August 29	2038-12-01	102.278	4.859
110	US$100	5.30	August 31	2016-08-31	99.740	5.334
457	—	4.50	September 18	2016-12-01	99.743	4.531
991[5]	—	6.35	September 21	2065-09-21	132.179	4.726
220[5]	—	6.35	September 25	2065-09-21	133.327	4.681
528	—	5.00	October 6	2038-12-01	105.683	4.657
15[5]	—	5.35	November 7	2025-06-01	109.266	4.602
27[5]	—	5.35	November 8	2025-06-01	108.899	4.630
22[5]	—	5.35	November 10	2025-06-01	108.090	4.692
1 702	US$1 500	5.125	November 14	2016-11-14	99.598	5.177
129[5]	—	5.00	November 23	2051-09-21	107.657	4.595
325[5]	—	5.00	November 23	2051-09-21	108.121	4.572
215[5]	—	6.70	November 23	2062-09-21	143.107	4.561
286	300 SF	2.625[4]	December 21	2017-06-21	100.270	2.594
527	—	5.00	December 21	2038-12-01	105.446	4.670
500	—	Variable[6]	December 21	2013-12-10	100.000	Variable
782	—	Variable[6]	January 15	2013-12-10	100.057	Variable
497	—	4.50	January 29	2017-12-01	99.401	4.570
114	HK$750	4.30[6]	February 2	2012-02-02	100.000	4.300
499	—	4.50	February 12	2017-12-01	99.757	4.528
182	200 SF	2.625[4]	February 15	2017-06-21	96.905	2.977
49	¥5 000	1.92	February 15	2017-02-15	100.000	1.920
1 006[7]	—	Various	Various	Various	Various	Various
7[8]	—	Various	Various	Various	Various	Various
432[9]	—	Various	Various	Various	Various	Various
20[10]	Various	Various	Various	Various	Various	Various
13 236						

P: Preliminary results.

Note: The Québec government has credit lines with various banks and financial institutions for a total of US$3 500 million. None of these credit lines is being drawn upon.

1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
2 Interest payable semi-annually except if another frequency is indicated in a note.
3 Yield to investor is determined on the basis of interest payable semi-annually.
4 Interest payable annually.
5 Private borrowings.
6 Interest payable quarterly.
7 Savings products issued by Épargne Placements Québec.
8 Borrowings from the Canada Pension Plan Investment Fund.
9 Immigrant Investor Program.
10 Amount received (disbursed) under interest rate and currency swap agreements.

TABLE E.16

Gouvernement du Québec
Borrowings for the Financing Fund in 2006-2007[P]

	Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
	(millions)		%			$	%
A. Borrowings for consolidated organizations							
	459	—	4.50	April 17	2016-12-01	97.092	4.853
	185	—	4.50	May 5	2016-12-01	96.390	4.942
	361	—	4.50	August 22	2016-12-01	98.346	4.704
	40	—	5.00	August 29	2038-12-01	102.278	4.859
	42	—	4.50	September 18	2016-12-01	99.743	4.531
	200[4]	—	Variable[5]	October 11	2016-10-11	100.000	Variable
	40[4]	—	5.35	November 7	2025-06-01	109.266	4.602
	200[4]	—	Variable[5]	December 14	2017-05-14	100.000	Variable
Sub-total	**1 527**						
B. Borrowings for certain government enterprises							
	27	—	4.50	April 17	2016-12-01	97.092	4.853
	25	—	4.50	August 22	2016-12-01	98.346	4.704
Sub-total	**52**						
TOTAL	**1 579**						

P: Preliminary results.
1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
2 Interest payable semi-annually except if another frequency is indicated in a note.
3 Yield to investor is determined on the basis of interest payable semi-annually.
4 Private borrowings.
5 Interest payable quarterly.

TABLE E. 17

Borrowings by Financement-Québec in 2006-2007[P]

Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		%			$	%
487	—	4.25	April 7	2014-03-01	97.370	4.651
600	—	Variable[4]	June 9	2012-04-25	100.000	Variable
47	—	5.25	July 26	2034-06-01	102.091	5.108
195	—	5.25	September 29	2034-06-01	108.738	4.683
499	—	4.25	November 3	2014-03-01	99.733	4.292
220	—	Variable[4]	January 26	2012-04-25	99.976	Variable
200[5]	—	Variable[4]	February 9	2014-06-09	100.000	Variable
281	—	Variable[4]	February 16	2013-09-16	100.000	Variable
2 529						

P: Preliminary results.
1 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
2 Interest payable semi-annually except if another frequency is indicated in a note.
3 Yield to investor is determined on the basis of interest payable semi-annually.
4 Interest payable quarterly.
5 Private borrowings.

TABLE E.18

Borrowings by Hydro-Québec in 2006[1]

Amount in Canadian dollars[2]	Face value in foreign currency	Interest rate[3]	Date of issue	Date of maturity	Price to investor	Yield to investor[4]
(millions)		%			$	%
596	—	6.00	January 17	2040-02-15	119.246	4.841
590	—	6.00	February 3	2040-02-15	118.050	4.904
591	—	6.00	April 3	2040-02-15	118.236	4.892
575	—	6.00	April 18	2040-02-15	114.963	5.070
520	—	5.00	October 17	2045-02-15	104.078	4.767
533	—	5.00	November 14	2045-02-15	106.503	4.635
165[5]	Various	Various	Various	Various	Various	Various
3 570						

Note: Hydro-Québec has credit lines with various banks and financial institutions for a total of US$2 000 million. None of these credit lines is being drawn upon.

1 Borrowings made from January 1 to December 31, 2006.
2 Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.
3 Interest payable semi-annually except if another frequency is indicated in a note.
4 Yield to investor is determined on the basis of interest payable semi-annually.
5 Amount received (disbursed) under interest rate and currency swap agreements.

TABLE E.19

Transition from total debt to debt representing accumulated deficits as at March 31, 2006[1]

(millions of dollars)

Consolidated direct debt		83 672
Net retirement plans liability		
Gross retirement plans liability	57 193	
Less: retirement plans sinking fund (RPSF)	– 22 563	
		34 630
Total debt		**118 302**
Less: financial assets net of other liabilities		
Financial assets	– 40 355	
Other liabilities	26 736	
		– 13 619
Net debt		**104 683**
Less: capital expenditures		– 12 984
DEBT REPRESENTING ACCUMULATED DEFICITS		**91 699**

1 The breakdown of financial assets and other liabilities is not available as at March 31, 2007. Therefore, this table presents data as at March 31, 2006.

Section F

Personal Income Tax Reduction

1. **PERSONAL INCOME TAX REDUCTION OF $1 248 MILLION** **F.3**

   1.1 Narrowing the gap between the tax burden in Québec and the Canadian average F.4

2. **GENERAL INCOME TAX REDUCTION OF $950 MILLION AS OF JANUARY 1, 2008** **F.7**

   2.1 A tax cut for all taxpayers F.10

3. **OTHER TAX CUTS TOTALLING $298 MILLION** **F.13**

   3.1 Rise from $500 000 to $750 000 in the lifetime capital gains exemption on small business shares and farm or fishing property F.15

   3.2 Increase from 69 to 71 in the age limit for maturing RPPs and RRSPs F.16

   3.3 Retirement income splitting F.18

   3.4 New refundable tax credit for education savings F.20

   3.5 Increase from $1 000 to $1 500 in the tax credit for retirement income F.23

   3.6 New refundable tax credit for people providing respite to informal caregivers F.25

   3.7 Enhancement of the refundable tax credit for child care expenses F.27

   3.8 Enhancement of the tax treatment for parents with children enrolled in post-secondary studies F.28

4. **A LOOK BACK AT THE PERSONAL INCOME TAX MEASURES ANNOUNCED SINCE 2003** **F.31**

   4.1 Tax relief for individuals F.31

   4.2 Substantial cumulative gain for all households F.33

   4.3 Disposable household income F.37

PERSONAL INCOME TAX REDUCTION OF $1 248 MILLION

The 2007-2008 Budget provides for a personal[1] income tax reduction of $1 248 million over a full year. This cut results from:

— a general income tax reduction of $950 million, of which $250 million was announced on February 20, 2007;

— other measures, representing an $84-million tax cut, provided for in the May 24, 2007 Budget;

— the maintenance of the other measures, in the amount of $214 million, announced on February 20, 2007.

TABLE F.1

Financial impact of the personal income tax reduction in the 2007-2008 Budget
(millions of dollars)

	Impact on tax burden	Impact on financial framework	
	Full year	2007-2008	2008-2009
General income tax reduction of $950 million	**– 950.0**	**– 200.0**	**– 950.0**
Other tax cuts totalling $298 million			
Measures announced on May 24, 2007	– 84.0	– 22.5	– 106.0
Measures announced on February 20, 2007	– 214.0	– 72.0	– 239.0
Subtotal	**– 298.0**	**– 94.5**	**– 345.0**
TOTAL	**– 1 248.0**	**– 294.5**	**– 1 295.0**

1 The changes to the personal income tax system are explained in greater detail in *Additional Information on the Budgetary Measures*.

1.1 Narrowing the gap between the tax burden in Québec and the Canadian average

The income tax reduction announced in this budget will further narrow the gap between the tax burden in Québec and that in the other Canadian provinces.

In 2003, the average tax burden differential with the other provinces was $2.2 billion. In 2008, it will be reduced to $646 million, a drop of 70%. Québec taxpayers will pay an average of $177 more in income tax than their counterparts in the other provinces.

Thus, between 2003 and 2008, Québec will have climbed from ninth to fifth position in the provincial ranking of lowest tax burden in Canada, despite the tax cuts recently announced by eight other provinces.

TABLE F.2

Personal income tax
Tax burden differential between Québec and the other provinces determined by applying the other provinces' tax structure to Québec[1]

	2003	2008[2]	
	($million)	($million)	($ per taxpayer)
Differential Québec – other provinces[3]			
British Columbia	3 538	3 278	898
Alberta	4 433	3 168	868
Ontario	5 627	2 699	739
Saskatchewan	2 234	555	152
Newfoundland and Labrador	– 677	– 560	– 153
Manitoba	937	– 686	– 188
New Brunswick	1 526	– 722	– 198
Prince Edward Island	1 099	– 901	– 247
Nova Scotia	689	– 1 014	– 278
AVERAGE DIFFERENTIAL	**2 156**	**646**	**177**

1 Including health-care contributions and family assistance measures (e.g. family allowances and refundable tax credits).
2 Including the measures in the 2007-2008 budgets of Québec, the federal government and the governments of all the other provinces.
3 The Québec tax abatement of 16.5% is subtracted from the tax burden differential.

Other provinces having announced tax cuts

Eight other provinces announced tax cuts in their 2007-2008 budgets. In some cases, the cuts were substantial, as with Newfoundland and Labrador, British Columbia and Prince Edward Island. Had Québec not lowered its income tax, the gap between its tax burden and the Canadian average would have widened.

Personal income tax reductions announced by the other provinces
(millions of dollars)

	Date of budget	Amount of the tax cut announced by the province	Value of the tax cut if applied to Québec[1]
Newfoundland and Labrador	April 26, 2007	155	2 971
British Columbia	February 20, 2007	515	1 200
Prince Edward Island	April 10, 2007	11	638
Manitoba	April 4, 2007	186	455
Alberta	April 19, 2007	197	455
Saskatchewan	March 22, 2007	40	300
Ontario	March 22, 2007	176[2]	137
Nova Scotia	March 23, 2007	33	111

Source: Ministère des Finances du Québec.

1 The value in Québec of the tax cuts announced by the other provinces is estimated by applying the other provinces' tax structure to Québec taxpayers.

2 In addition to tax cuts, the Ontario budget provides for the gradual implementation of a child tax benefit in the form of a refundable tax credit worth $765 million.

2. GENERAL INCOME TAX REDUCTION OF $950 MILLION AS OF JANUARY 1, 2008

With the 2007-2008 Budget, the government announces a general personal income tax reduction of $950 million as of January 1, 2008.

That is $700 million more than the $250-million tax reduction announced on February 20, 2007.

TABLE F.3

Financial impact of the $950-million income tax reduction as of January 1, 2008
(millions of dollars)

	Impact on tax burden	Impact on financial framework	
	Full year	2007-2008	2008-2009
Tax reduction of $250 million announced on February 20, 2007	– 250	– 50	– 250
Additional tax reduction of $700 million announced on May 24, 2007	– 700	– 150	– 700
TOTAL	**– 950**	**– 200**	**– 950**

This $950-million cut, in effect as of January 1, 2008, results from two changes:

— the taxable income thresholds of the tax table will be raised by 25%, to:

  – $0 to $37 500 for the first rate of 16%;

  – $37 500 to $75 000 for the second rate of 20%;

  – $75 000 and over for the third rate of 24%.

— the basic amount will be increased by $275, to $10 215.

This tax cut will be in addition to the 2% indexation forecast for 2008.

TABLE F.4

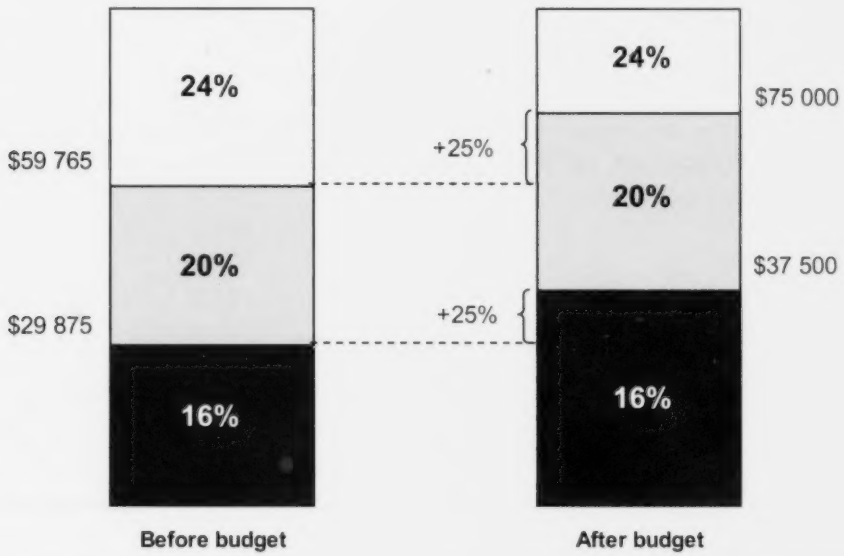
Changes to personal income tax – 2008

	2008 taxation year		
2007 taxation year	**Before budget[1]**	**After budget[2]**	**Tax rate**
Tax table taxable income thresholds			
$0 to $29 290	$0 to $29 875	$0 to $37 500	16%
$29 290 to $58 595	$29 875 to $59 765	$37 500 to $75 000	20%
$58 595 and over	$59 765 and over	$75 000 and over	24%
Basic amount[3]			
$9 745	$9 940	$10 215	N/A

1 Amounts forecast, including 2% indexation in 2008 valued at $355 million.
2 Amounts include the $950-million income tax reduction and 2% indexation valued at $355 million, for a total cost to the government of $1 305 million.
3 As of 2008, the amount for recognized essential needs and the minimum complementary amount will be combined to form the basic amount used to calculate the basic tax credit. Under the pre-budget system, the two amounts were added together. Taxpayers may claim a non-refundable tax credit equal to 20% of this amount.

CHART F.1

25% increase in the taxable income thresholds of the tax table – January 1, 2008



2.1 A tax cut for all taxpayers

The 25% rise in the taxable income thresholds of the tax table and the $275 increase in the basic amount will translate into a tax cut in 2008 for all individuals who pay income tax, that is, 3.8 million taxpayers.

— Tax-paying Individuals will see their income tax reduced by up to $969.

— Couples could see a tax cut of up to $1 939.

For example, the tax reduction for a couple with two children and an earned income of $75 000 will be $984,[2] representing a cut of almost 10% in their income tax payable.

TABLE F.5

Gain derived from the $950-million income tax reduction – 2008
(dollars)

Earned income	Couple with two children and one income	Couple with two children and two incomes[1]	Single-parent family	Person living alone
15 000	Non-taxable	Non-taxable	27	27
25 000	Non-taxable	Non-taxable	55	55
30 000	110	110	55	55
35 000	275	110	220	220
40 000	415	110	360	360
50 000	415	110	360	360
60 000	415	110	360	360
65 000	584	240	529	529
70 000	784	440	729	729
75 000	984	640	929	929
100 000	1 024	720	969	969
125 000	1 024	859	969	969
150 000	1 024	1 859	969	969
175 000	1 024	1 939	969	969

1 Each spouse earns 50% of the earned income.

2 The $984 tax reduction is obtained on the basis of $74 000 in taxable income, after the $1 000 deduction for workers, the changes to the taxable income thresholds and the $275 increase in the basic amount for both spouses and the changes to the tax table have been factored in. Thus, the tax reduction is equal to:

(20% - 16%) x ($37 500 - $29 875) + (24% - 20%) x ($74 000 - $59 765) + 20% x ($275 x 2) = $984.

TABLE F.6

Gain derived from the $950-million income tax reduction – 2008

Earned income	Couple with two children and one income			Couple with two children and two incomes[1]		
	Income tax payable[2]	Tax cut		Income tax payable[2]	Tax cut	
($)	($)	($)	(%)	($)	($)	(%)
30 000	664	110	16.6	536	110	20.5
35 000	1 629	275	16.9	1 304	110	8.4
40 000	2 629	415	15.8	2 104	110	5.2
50 000	4 629	415	9.0	3 704	110	3.0
60 000	6 629	415	6.3	5 304	110	2.1
65 000	7 798	584	7.5	6 234	240	3.8
70 000	8 998	784	8.7	7 234	440	6.1
75 000	10 198	984	9.7	8 234	640	7.8
100 000	16 198	1 024	6.3	13 234	720	5.4
125 000	22 198	1 024	4.6	18 373	859	4.7
150 000	28 198	1 024	3.6	24 373	1 859	7.6
175 000	34 198	1 024	3.0	30 373	1 939	6.4

1 Each spouse earns 50% of the family income
2 Income tax payable, excluding refundable tax credits such as Child Assistance and the Work Premium.

TABLE F.7

Gain derived from the $950-million income tax reduction – 2008

Earned income	Single-parent family with one child			Person living alone		
	Income tax payable[1]	Tax cut		Income tax payable[1]	Tax cut	
($)	($)	($)	(%)	($)	($)	(%)
15 000	27	27	100.0	27	27	100.0
25 000	1 611	55	3.4	1 611	55	3.4
30 000	2 411	55	2.3	2 411	55	2.3
35 000	3 500	220	6.3	3 500	220	6.3
40 000	4 617	360	7.8	4 617	360	7.8
50 000	6 617	360	5.4	6 617	360	5.4
60 000	8 617	360	4.2	8 617	360	4.2
65 000	9 786	529	5.4	9 786	529	5.4
70 000	10 986	729	6.6	10 986	729	6.6
75 000	12 186	929	7.6	12 186	929	7.6
100 000	18 186	969	5.3	18 186	969	5.3
125 000	24 186	969	4.0	24 186	969	4.0
150 000	30 186	969	3.2	30 186	969	3.2
175 000	36 186	969	2.7	36 186	969	2.7

1 Income tax payable, excluding refundable tax credits such as Child Assistance in the case of single-parent families and the Work Premium.

3. OTHER TAX CUTS TOTALLING $298 MILLION

In addition to the general income tax reduction of $950 million, the 2007-2008 Budget provides for:

— an $84-million tax cut announced on May 24, 2007 stemming from the following changes:

  — rise from $500 000 to $750 000 in the lifetime capital gains exemption on small business shares and farm or fishing property;

  — increase from 69 to 71 in the age limit for maturing RPPs and RRSPs;

  — increase in the meal allowance deduction for truckers;

  — non-taxation of capital gains on donations of publicly-listed securities to private foundations;

  — improvement of the refundable tax credit for education savings;

  — non-taxation of investment income from a registered disability savings plan;

  — increase from $1 200 to $1 800 in the income tax instalment threshold.

— a $214-million tax cut announced on February 20, 2007 stemming from the following changes:

  — retirement income splitting;[3]

  — new refundable tax credit for education savings;

  — increase from $1 000 to $1 500 in the tax credit for retirement income;

  — new refundable tax credit for people providing respite to informal caregivers;

  — improvement of the refundable tax credit for child care expenses;

  — enhancement of the tax treatment for parents with children enrolled in post-secondary studies;

  — increase from 30% to 50% in the rate of the refundable tax credit for the treatment of infertility as of the third treatment.

3 Measure presented in *Information Bulletin 2006-6*.

TABLE F.8

Financial impact of the other personal income tax reductions–2007-2008 Budget

(millions of dollars)

	Impact on tax burden	Impact on financial framework	
	Full year	2007-2008	2008-2009
Measures announced on May 24, 2007			
Rise from $500 000 to $750 000 in the lifetime capital gains exemption on small business shares and farm or fishing property	– 40	—	– 5
Increase from 69 to 71 in the age limit for maturing RPPs and RRSPs	– 25	– 5	– 22
Increase in the meal allowance deduction for truckers	– 9	—	– 3
Non-taxation of capital gains on donations of publicly-listed securities to private foundations	– 8	—	– 8
Improvement of the refundable tax credit for education savings	– 1.5	– 0.5	– 0.9
Non-taxation of investment income from a registered disability savings plan	– 0.5	—	– 0.1
Increase from $1 200 to $1 800 in the income tax instalment threshold	—	– 17	– 67
Subtotal	**– 84**	**– 22.5**	**– 106**
Measures announced on February 20, 2007			
Retirement income splitting	– 106	– 27	– 106
New refundable tax credit for education savings	– 41	– 29	– 41
Increase from $1 000 to $1 500 in the tax credit for retirement income	– 37	– 10	– 70
New refundable tax credit for people providing respite to informal caregivers	– 10	– 2	– 5
Improvement of the refundable tax credit for child care expenses	– 10	– 2	– 8
Enhancement of the tax treatment for parents with children enrolled in post-secondary studies	– 8	– 2	– 8
Increase from 30% to 50% in the rate of the refundable tax credit for the treatment of infertility (as of the third treatment)	– 2	—	– 1
Subtotal	**– 214**	**– 72**	**– 239**
TOTAL	**– 298**	**– 94.5**	**– 345**

3.1 Rise from $500 000 to $750 000 in the lifetime capital gains exemption on small business shares and farm or fishing property

Currently, taxpayers who sell qualified[4] small business shares, or farm or fishing property, may claim a lifetime capital gains exemption of $500 000. With the 2007-2008 Budget, the government announces that the exemption will be raised from $500 000 to $750 000. This measure is intended to:

— foster the start-up of new businesses and help small businesses expand;

— encourage risk-taking and investment in farming and fishing businesses, and create a climate that will better enable such businesses to obtain capital;

— facilitate business succession, in particular the transmission of family businesses.

In addition, the higher exemption helps entrepreneurs, farmers and fishers ensure that they are financially secure when they retire.

As a result of the $250 000 increase in the lifetime capital gains exemption, the taxpayers concerned may avail themselves of an income tax reduction of up to $30 000.

This measure represents tax relief of $40 million over a full year, and will apply to capital gains realized since March 19, 2007.

4 Briefly, qualified shares are those of a Canadian-controlled private corporation actively carrying on a business.

3.2 Increase from 69 to 71 in the age limit for maturing RPPs and RRSPs

The 2007-2008 Budget provides that, for 2007 and subsequent taxation years, the age limit for converting registered retirement savings plans (RRSPs) and registered pension plans (RPPs)[5] will be increased from 69 to 71.

Currently, RRSPs and RPPs must mature before the end of the year in which an RRSP annuitant or RPP member turns 69. Once an RRSP or RPP has matured, no contributions may be made to it. The individual must then begin to withdraw the amounts accrued in the plan, generally in the form of a taxable life annuity.

The announced changes therefore mean that the age limit for maturing RPPs and RRSPs is pushed back two years, giving people who are 70 or 71 the opportunity to continue accumulating retirement capital tax-free.

For example, under current rules, individuals who have $100 000 in an RRSP at the end of the year they turn 69 and who convert the RRSP into a registered retirement income fund (RRIF) must withdraw a minimum amount of $4 760 and $5 006, respectively, over the next two years.

As a result of the increase from 69 to 71 in the age limit for maturing RRSPs, such individuals:

— will not have income tax payable on the minimum amount, because they will not have to withdraw it (gain of $2 343 over two years);

— will receive a tax reduction on the additional return accrued tax-free in the RRSP (gain of $118 over two years);

— will see a total reduction of $2 461 in their income tax payable over two years.

The increase from 69 to 71 in the age limit for maturing RPPs and RRSPs represents a tax cut of $25 million in 2007.

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5 The increase from 69 to 71 in the age limit also applies to maturing deferred profit-sharing plans (DPSPs).

TABLE F.9

Gain derived from the increase in the age limit for maturing RPPs and RRSPs – Situation of a person living alone who has $100 000 in an RRSP at the end of the year he turns 69

(dollars)

	70 years of age[1]	71 years of age[1]	Total
Impact on the RRSP assets			
Amount kept in the RRSP[2]	4 760	5 006	9 766
Additional return on the amounts kept in the RRSP[3]	119	369	488
Total – Impact on assets	**4 879**	**5 375**	**10 254**
Québec income tax gain[4]			
Attributable to the amount kept in the RRSP	1 142	1 201	2 343
Attributable to the additional return on the amounts kept in the RRSP	29	89	118
Total – Income tax gain	**1 171**	**1 290**	**2 461**

1 Person's age on December 31 of the year.
2 Respectively, 4.76% and 5% of the capital accrued at the start of the year the person turned 70 and 71.
3 Based on a 5% rate of return and a minimum withdrawal evenly divided at the end of each month in the year.
4 Based on a 24% tax rate.

3.3 Retirement income splitting

In December 2006, Québec announced that it would be allowing couples the option to split their retirement income as of the 2007 taxation year.

This measure will enable taxpayers who receive retirement income,[6] such as payments under a registered pension plan, amounts withdrawn from a registered retirement savings plan (RSSP) and payments under a registered retirement income fund (RRIF),[7] to transfer up to 50% of this income to their spouse.

The definition of eligible income in Québec will be harmonized with the federal tax system, which, since January 1, 2007, has also allowed couples to split certain types of retirement income.

Splitting retirement income will reduce the amount of income tax payable by a household. For example:

— A couple with one retirement income of $25 000 will pay $353 less in income tax;

— A couple with two retirement incomes totalling $75 000 will receive a tax cut of $488.

TABLE F.10

Gain derived from retirement income splitting for a couple receiving eligible retirement income
(dollars)

	Couple with one retirement income			Couple with two retirement incomes[1]		
Eligible retirement income[2]	Income tax payable before splitting	Income tax payable after splitting	Gain[3]	Income tax payable before splitting	Income tax payable after splitting	Gain
25 000	3 033	2 679	353	2 706	2 679	27
35 000	5 324	4 717	607	5 366	5 300	65
45 000	7 680	6 717	963	7 785	7 431	354
55 000	9 822	8 730	1 092	10 177	9 689	488
65 000	11 978	10 773	1 205	12 356	11 856	500
75 000	14 478	12 773	1 705	14 534	14 046	488

1 One of the spouses receives 80% of the household income and the other, 20%.
2 Not including retirement pensions received under the Québec Pension Plan, which may already be split.
3 Splitting retirement income enables both spouses to claim the tax credit for retirement income.

6 The income-splitting measure does not apply to certain types of retirement income, including pensions received under the Québec Pension Plan, Old Age Security pensions, and sums withdrawn from an RRSP before the age of 65.

7 As of 65 years of age for RRSPs and RRIFs.

A total of close to 370 000 couples who declare eligible retirement income will receive a tax cut of $106 million in 2007.

TABLE F.11

Impact of retirement income splitting by family income – 2007

Family income	Number of households	Total impact ($million)	Average impact ($)
Below $50 000	171 505	13	76
$50 000 to $75 000	99 326	42	420
$75 000 to $100 000	49 505	22	448
$100 000 and over	49 343	29	589
TOTAL	**369 679**	**106**	**286**

3.4 New refundable tax credit for education savings

To encourage Québec families to save more for their children's post-secondary education, the 2007-2008 Budget provides that contributions to a registered education savings plan (RESP) will henceforth give entitlement to a refundable tax credit for education savings (RTCES) from the Québec government.

The tax credit is based on RESP contributions and the income of the beneficiary child's parents. Contributions may be made by the child's parents or grandparents, or by anyone wishing to participate financially in the child's education. The tax assistance for education savings will equal 10% of the first $2 500 in annual contributions. In the case of low- and middle-income families:

— the rate of the tax credit may increase from 10% to 20% on the first $500 contributed yearly;

— the rate will remain at 10% for contributions over $500, to a maximum of $2 500.

Thus, in 2007, for an annual contribution of $2 500, the Québec government will add:

— $250 (10%) for a family income of over $74 357;

— $275 (11%) for a family income of over $37 178 to $74 357;

— $300 (12%) for a family income of $37 178 or less.

The maximum lifetime tax credit granted for one child is $3 600.

The tax credit will be paid into the beneficiary's RESP account, on top of the contribution. The investment income generated by the contributions and the tax credit will accumulate sheltered from tax until the child begins post-secondary studies. The accumulated amounts will become taxable for the child once they have been received by the latter in the form of an education assistance payment.

TABLE F.12

Illustration of the assistance granted under the new refundable tax credit for education savings for an annual RESP contribution of $2 500 – 2007
(dollars)

	Income of the child's parents		
	$37 178[1] or less	**Over $37 178[1] to $74 357[1]**	**Over $74 357[1]**
Parental contribution to the RESP account	**2 500**	**2 500**	2 500
New Québec refundable tax credit for education savings added to the RESP account			
On the first $500 contributed			
– Amount of the tax credit	100	75	50
– %	20%	15%	10%
On the portion of annual contributions over $500, to a maximum of $2 500			
– Amount of the tax credit	200	200	200
– %	10%	10%	10%
Total tax credit			
– Amount of the tax credit	**300**	**275**	250
– %	12%	11%	10%
Contribution and Québec refundable tax credit paid into the RESP account	**2 800**	**2 775**	2 750

Note: The information provided takes into account the improvements made by the federal government in its 2007 budget.
1 Amounts correspond to the income cutoffs for the Canada Education Savings Grant.

The Québec tax credit is in addition to the federal education assistance granted on annual RESP savings.

In terms of the announcement of February 20, 2007, the maximum annual amount of the Québec refundable tax credit for education savings has been raised $50. The ceiling on annual RESP contributions has been eliminated[8] and the lifetime limit has been set at $50 000 instead of $42 000.

The new tax credit will benefit more than 300 000 children and represents a tax break of $42.5 million over a full year. The new measure will apply to RESP contributions made after February 20, 2007.

8 This will allow for higher annual contributions and additional tax-free returns.

Registered Education Savings Plan (RESP)

- The registered education savings plan is intended to help parents save for post-secondary education of the designated beneficiary (usually a child under 18 years of age).
- There is no limit on the annual contribution to an RESP. The lifetime limit is $50 000.

Application procedures for the new Québec refundable tax credit for education savings

- The new Québec tax credit is in addition to the Canada Education Savings Grant (CESG) described below. The Québec plan is fully harmonized with the CESG, except for the amount of the grant.
- A parent who contributes $2 500 a year to an RESP will receive a tax credit calculated as follows:
  - 10% of the first $500 in annual contributions, and may increase to 20% for low-income families;
  - 10% on all contributions over the first $500, to a maximum of $2 500.
- The maximum annual tax credit is reached with an RESP contribution of $2 500.

Main parameters of the Québec refundable tax credit for education savings (RTCES) – 2007

	Income of the child's parents		
	$37 178[1] or less	**Over $37 178[1] to $74 357[1]**	**Over $74 357[1]**
RTCES on the first $500 contributed yearly to an RESP	Max. $100 20%	Max. $75 15%	Max. $50 10%
RTCES on all annual RESP contributions over the first $500, to a maximum of $2 500	Max. $200 10%	Max. $200 10%	Max. $200 10%
Maximum annual RTCES	$300	$275	$250
Maximum lifetime RTCES	$3 600	$3 600	$3 600

1 Amounts correspond to the income cutoffs for the Canada Education Savings Grant.

Canada Education Savings Grant application procedures

- For example, the CESG for a parent who contributes $2 500 a year to an RESP is calculated as follows:
  - 20% of the first $500 in annual contributions, and may increase to 40% for low-income families;
  - 20% on all contributions over the first $500, to a maximum of $2 500.
- The maximum annual grant is reached with an RESP contribution of $2 500.

Main parameters of the Canada Education Savings Grant (CESG) – 2007

	Income of the child's parents		
	$37 178[1,2] or less	**Over $37 178[2] to $74 357[2]**	**Over $74 357[2]**
CESG on the first $500 contributed yearly to an RESP	Max. $200 40%	Max. $150 30%	Max. $100 20%
CESG on all annual RESP contributions over the first $500, to a maximum of $2 500	Max. $400 20%	Max. $400 20%	Max. $400 20%
Maximum annual grant	$600	$550	$500
Maximum lifetime grant	$7 200	$7 200	$7 200

1 The federal government supplements the Canada Education Savings Grant with a learning bond.
2 Income cutoffs are indexed annually.

The yield on contributions made and the Québec and federal education savings assistance accrues free of tax until it is received by the child in the form of an education assistance payment. With the exception of contributions, government assistance and the accrued yield are taxable only for the beneficiary at the time of withdrawal.

3.5 Increase from $1 000 to $1 500 in the tax credit for retirement income

The 2007-2008 Budget provides that, as of the 2007 taxation year, the maximum amount of retirement income to which the the tax credit applies will be increased from $1 000 to $1 500.

The tax credit for retirement income is equal to 20% of the eligible retirement income received by an individual, including:

— life annuities paid under a pension plan;

— payments from a registered retirement savings plan.

The $500 increase in the maximum amount of retirement income giving entitlement to the tax credit will translate into a gain of up to $100 for an elderly person living alone and $200 for an elderly couple.

The amount of an individual's eligible retirement income is reduced on the basis of family income.[9]

TABLE F.13

Gain derived from the increase from $1 000 to $1 500 in eligible retirement income giving entitlement to the tax credit – 2007
(dollars)

	Elderly person living alone			Elderly couple[1]		
Retirement income[2]	Tax credit before budget	Tax credit after budget	Gain	Tax credit before budget	Tax credit after budget	Gain
15 000	200	300	100	—	—	—
25 000	200	300	100	400	600	200
50 000	75	175	100	300	500	200
55 000	—	25	25	150	350	200
65 000	—	—	—	—	50	50

1 Couple with two retirement incomes, where each spouse receives 50% of the income.
2 Including retirement income other than Old Age Security benefits and the Guaranteed Income Supplement.

9 The tax credit is calculated as follows:
20% x [eligible amount – 15% x (family income – $29 290)];
where the eligible amount is equal to the total of the amount for retirement income, the amount with respect to age and the amount for a person living alone.

Raising the maximum amount of eligible retirement income from $1 000 to $1 500 will give 356 000 Quebecers a tax cut of $37 million.

TABLEAU F.14

Impact of the increase in the tax credit for retirement income from $1 000 to $1 500 by income – 2007

Taxpayer's income	Number of taxpayers	Total impact ($million)	Average impact ($)
Below $25 000	60 685	5.7	94
$25 000 to $50 000	216 997	22.3	103
$50 000 to $75 000	73 635	8.6	117
$75 000 and over	4 689	0.4	85
TOTAL	**356 006**	**37.0**	**104**

3.6 New refundable tax credit for people providing respite to informal caregivers

The 2007-2008 Budget provides for the introduction of a new refundable tax credit, as of the 2007 taxation year, to recognize the contribution of people who provide volunteer respite to informal caregivers of people with disabilities.

The tax credit is not intended as remuneration. Rather, its purpose is to recognize the social act of support offered to informal caregivers as well as some of the expenses incurred by that act. The amount of the tax credit will be:

— a maximum of $500 for a person providing volunteer respite to the same informal caregiver;

— a maximum of $1 000 for all of the people providing volunteer respite to the caregiver of the same care recipient.

People who offer volunteer respite care may claim the tax credit in their income tax return on the condition that they:

— provide the same caregiver with the equivalent of at least one day of free respite per week during a given year;

— receive an information slip from the caregiver attesting to the level of the tax credit;

— are not a member of the care recipient's immediate family.

This measure will provide $5 million in tax relief to an estimated 10 000 volunteers in 2007.

The measure is in addition to the other measures to facilitate home support for seniors or people losing their autonomy, namely:

— the refundable tax credit for home-support services for seniors;

— the refundable tax credit for natural caregivers of adults.

TABLE F.15

Refundable tax credits designed to facilitate home support for seniors or people losing their autonomy – 2007

	Home-support services for seniors	Natural caregivers of adults	People providing respite to informal caregivers
Recipient of the refundable tax credit	Person aged 70 or over	Caregiver	Person who provides the equivalent of at least one day of respite per week during a given year
Amount of assistance paid per year	Maximum $3 750	Maximum $1 020 reduced on the basis of the income of the person helped (minimum $561)	Maximum $500 per volunteer and $1 000 for all of the people providing volunteer respite for the same care recipient
Users	290 000	76 000	10 000
Tax benefit	$194 million	$50 million	$5 million

3.7 Enhancement of the refundable tax credit for child care expenses

The 2007-2008 Budget provides that the refundable tax credit for child care expenses will be granted regardless of earned income[10] as of the 2007 taxation year. This change will substantially increase the financial assistance granted to families whose child care expenses exceed the household's lowest earned income. It will also greatly simplify calculation of the tax credit.

Thus, spouses who run a family business (e.g. a farm), where the business makes a profit and only one of the spouses reports earned income, will now be able to claim the tax credit even if the income of the spouse with the lowest earned income is below the incurred child care expenses. For example, the annual gain for a couple whose only earned income is a net business income of $25 000 and whose child care expenses are $7 500 will be $5 250.

Moreover, from now on, the full value of the tax credit will be available to single-parent families whose reported business income is less than the incurred child care expenses and who have no other earned income.

The enhancement of the tax credit represents $10 million in annual tax relief for Québec taxpayers.

TABLE F.16

Gain derived from the enhanced refundable tax credit for child care expenses[1] for families operating a business – 2007
(dollars)

Net business income	Couple where only one spouse reported net business income			Single-parent family		
	Before budget	After budget	Gain	Before budget	After budget	Gain
0	—	5 250	5 250	—	5 250	5 250
1 000	—	5 250	5 250	750	5 250	4 500
2 500	—	5 250	5 250	1 875	5 250	3 375
5 000	—	5 250	5 250	3 750	5 250	1 500
10 000	—	5 250	5 250	5 250	5 250	—
15 000	—	5 250	5 250	5 250	5 250	—
20 000	—	5 250	5 250	5 250	5 250	—
25 000	—	5 250	5 250	5 250	5 250	—

Note: Assuming families pay $7 500 in child care expenses and have no other income besides net business income.
1 Child of preschool age who does not have a severe and prolonged impairment in mental or physical functions.

10 Essentially, earned income includes gross employment income, net business income, scholarships, fellowships and bursaries, and certain government benefits (employment insurance benefits, Québec parental insurance plan benefits, disability pensions under the Québec Pension Plan, etc.).

3.8 Enhancement of the tax treatment for parents with children enrolled in post-secondary studies

To ease the tax burden on parents who financially support their children's post-secondary education, the 2007-2008 Budget provides for significant changes to the tax assistance relative to education.

These changes will enhance and simplify the tax assistance for parents that have children engaged in vocational training or post-secondary studies.

More specifically, the 2007-2008 Budget provides that:

— the portion of tuition and examination fees not used by the student to offset his taxes may be transferred to the parents;

— the tax credit for children under 18 engaged in vocational training or post-secondary studies will be enhanced for parents;

— the portion of the amount for recognized essential needs not used by an adult student to reduce his taxes may be transferred to the parents.

❑ Transfer of tuition and examination fees to parents

Tuition and examination fees paid during a year give entitlement to a non-refundable tax credit in the calculation of income tax payable by students. The portion of tuition and examination fees not used to offset the amount of income tax payable by the student is deferrable to the following years. Since parents often pay all or part of their children's tuition fees, students may, as of the 2007 taxation year, transfer the unused portion of tuition and examination fees for the year to their parents so that they can reduce their income tax.

❑ Enhancement of the tax credit for parents of a child under 18 who is a student

The tax system grants parents of a child engaged in vocational training or post-secondary studies a tax credit determined on the basis of the amount of $3 720 and the child's net income. The tax system will be changed as of the 2007 taxation year to reduce the amount used to calculate the tax credit by an amount equal to 80%, rather than 100%, of the child's net income. In addition, scholarships and bursaries will no longer be considered in the calculation of the child's income for the purposes of reducing the tax credit granted to the parents. These changes will increase the value of the tax credit for parents.

❑ Transfer to parents of the amount for recognized essential needs of a child over 18 who is a student

As of the 2007 taxation year, the tax credit claimed by parents for an adult child who is a student ($6 650[11]) will be replaced by the transfer to parents of the unused portion of the amount for recognized essential needs of the child ($6 650). The maximum amount that may be transferred by the child will be equal to the maximum amount of the tax credit it replaces. In addition, scholarships and bursaries received by students will no longer reduce the amount of the tax credit that may be transferred to the parents. Consequently, the tax credit claimed by parents for adult children will be higher.

These changes represent $8 million a year in tax relief for parents with dependent children engaged in vocational training or post-secondary studies.

TABLE F.17

Enhancement of the tax treatment for parents with children enrolled in post-secondary studies – 2007

Before 2007-2008 Budget	After 2007-2008 Budget
Transfer of tuition and examination fees to parents	
- Tuition and examination fees for the year not used by students **may not** be transferred to their parents or grandparents	- Parents and grandparents **may** claim tuition and examination fees for the year not used by a student
Enhancement of the tax credit for parents of a child under 18 who is a student	
- Amount respecting children engaged in vocational training or post secondary studies: maximum $3 720	- No change
- Amount reduced at a rate of **100%** of the child's net income **including** scholarships and bursaries	- Amount reduced at a rate of **80%** of the child's income **not including** scholarships and bursaries
Transfer to parents of the amount for recognized essential needs of a child over 18 who is a student	
Tax credit for a child over 18 enrolled in post-secondary studies - Basic amount of $2 930[1] - Amount respecting children engaged in vocational training or post-secondary studies: maximum $3 720 - Total: $6 650 - Total amount reduced at a rate of 100% of the child's net income **including** scholarships and bursaries	- Parents **may** claim the portion of the amount for recognized essential needs not used by the student and **not reduced** by the amount of scholarships and bursaries: maximum $6 650

1 Including the basic amount and the additional amount for a child.

11 Including the basic amount for adult children who are students ($2 930) and the amount for children engaged in vocational and post-secondary studies ($3 720).

For example, the gain for parents as a result of these measures is:

— $240 for parents of a child under 18 who has an income of $3 500 and tuition fees of $500;

— $599 for parents of a child over 18 who has an income of $5 000 and tuition fees of $2 000.

TABLE F.18

Gain for parents under the improved tax assistance relative to education – 2007

(dollars)

	Before 2007-2008 Budget			After 2007-2008 Budget				
Student's income	Transfer of tuition fees	Tax credit respecting children[1]	Sub-total	Transfer of tuition fees	Tax credit respecting children[2]	Transfer of the amount for recognized essential needs	Sub-total	Gain
Parents with a child under 18 enrolled in post-secondary studies – tuition fees of $500								
2 500	N/A	244	244	100	344	N/A	444	200
3 500	N/A	44	44	100	184	N/A	284	240
5 000	N/A	—	—	100	—	N/A	100	100
7 500	N/A	—	—	100	—	N/A	100	100
10 000	N/A	—	—	100	—	N/A	100	100
Parents with a child over 18 enrolled in post-secondary studies – tuition fees of $2 000								
2 500	N/A	831	831	400	N/A	930	1 330	499
3 500	N/A	631	631	400	N/A	770	1 170	539
5 000	N/A	331	331	400	N/A	530	930	599
7 500	N/A	—	—	400	N/A	130	530	530
10 000	N/A	—	—	400	N/A	—	400	400

Note: Assuming the parents are subject to income tax, pay all of the student's tuition fees and the student transfers all unused amounts to them.

1 Including the basic amount for adult children who are students and the amount for children engaged in vocational training or post-secondary studies.

2 Amount for children engaged in vocational training or post-secondary studies.

4. A LOOK BACK AT THE PERSONAL INCOME TAX MEASURES ANNOUNCED SINCE 2003

4.1 Tax relief for individuals

The tax cut in the 2007-2008 Budget is in addition to the tax relief measures in the last three Québec budgets, for fiscal 2004-2005, 2005-2006 and 2006-2007. In the 2004-2005 Budget, the government announced that it was putting $1.1 billion back into taxpayers' pockets, mainly through the following measures:

— Child Assistance;

— the Work Premium;

— a single tax system.

The 2005-2006 Budget provided for tax relief of $372 million through, in particular:

— the introduction of the $500 deduction for workers;

— the reform of support measures for persons with disabilities and informal caregivers.

The 2006-2007 Budget provided for tax relief of $382 million through, among other measures:

— the increase from $500 to $1 000 in the deduction for workers;

— the enhancement of the refundable tax credit for home-support services for seniors.

TABLE F.19

Taxpayer gain by income bracket – 2008
(millions of dollars)

Taxpayer's income	2004-2005 Budget	2005-2006 Budget	2006-2007 Budget	2007-2008 Budget	Subtotal	Indexation	Total
Below $15 000	384	15	40	16	455	87	**542**
$15 000 to $25 000	283	62	69	50	464	177	**641**
$25 000 to $50 000	273	166	153	349	941	580	**1 521**
$50 000 to $75 000	93	81	73	342	589	329	**918**
$75 000 to $100 000	24	27	26	235	312	162	**474**
$100 000 and over	13	21	21	256	311	165	**476**
TOTAL	**1 070**	**372**	**382**	**1 248**	**3 072**	**1 500**	**4 572**

Indexation of the tax system from 2004 to 2008 eases the tax burden on Québec taxpayers by $1.5 billion. Including indexation of the tax system, the tax relief granted to Québec taxpayers since 2003 totals $4.6 billion.

Indexation of the tax system

To protect taxpayers' purchasing power against the effects of inflation, the Québec government indexes the personal income tax system. The taxable income thresholds of the tax table as well as most tax credits are indexed.

In 2008, the Québec government will index the tax system at a cost of $355 million. The cumulative impact for the period 2004 to 2008 will be $1.5 billion.

Impact of indexation of the personal income tax system – 2004-2008

	2004	2005	2006	2007	2008
Indexation rate (%)	2.00	1.43	2.43	2.03	2.00[1]
Impact ($ million)	235	180	390	340	355
Cumulative impact ($ million)	235	415	805	1 145	1 500

1 Based on a forecast indexation rate of 2%. The actual indexation rate for 2008 will be known in fall 2007.

The 2007 indexation rate of the Québec tax system is 2.03%. Only four other provinces have indexed their tax system every year since 2004.

Rate of indexation of federal and provincial tax systems

(%)

	2004	2005	2006	2007
Federal[1]	3.3	1.7	2.2	2.2
Provinces				
Newfoundland and Labrador[2]	—	—	—	1.0
Prince Edward Island	—	—	—	—
Nova Scotia	—	—	—	—
New Brunswick[1]	—	1.7	2.2	2.2
Québec[3]	2.0	1.43	2.43	2.03
Ontario[4]	2.9	1.9	2.2	2.1
Manitoba	—	—	—	—
Saskatchewan[1]	3.3	1.7	2.2	2.2
Alberta[4]	6.0	1.3	1.9	3.6
British Columbia[4]	2.6	1.8	2.1	1.9

Note: — means that the tax system was not indexed.

1 The indexation rate is calculated on the basis of Canada's consumer price index.

2 The 2007 indexation rate is 2.0%. However, indexation will be applied only as of July 1, 2007. Thus, the average rate for 2007 is 1.0%.

3 As of the 2005 taxation year, the indexation rate is based on Québec's consumer price index, minus alcohol and tobacco.

4 The indexation rate is calculated on the basis of the province's consumer price index.

4.2 Substantial cumulative gain for all households

The tax relief measures implemented since 2003 are significant for households in all income brackets. The disposable income of a couple with two children and one earned income has risen by:

— $4 724 for a total family income of $25 000;

— $2 089 for a total family income of $50 000;

— $2 823 for a total family income of $75 000.

TABLE F.20

Gain for a couple with two children and one earned income –2008

(dollars)

	2004-2005 Budget[1]			2005-2006 and 2006-2007 budgets[1]	2007-2008 Budget[1]			
Earned income	Child Assistance[2]	Work Premium	Single tax system[3]	Deduction for workers	Increase in tax table thresholds and in basic amount	Subtotal	Indexation[4]	Total
0	1 750	—	—	—	—	1 750	199	1 949
15 000	1 750	2 780	—	20	—	4 550	249	4 799
25 000	2 224	1 780	75	260	—	4 339	386	4 724
30 000	1 625	1 280	90	300	110	3 405	651	4 057
35 000	625	780	105	300	275	2 085	689	2 775
40 000	648	280	74	300	415	1 717	806	2 522
50 000	660	—	29	240	415	1 344	745	2 089
60 000	720	—	21	280	415	1 436	937	2 373
65 000	670	—	21	280	584	1 555	968	2 523
70 000	620	—	21	280	784	1 705	968	2 673
75 000	570	—	21	280	984	1 855	968	2 823
100 000	—	—	21	240	1 024	1 286	800	2 086
125 000	—	—	21	240	1 024	1 286	800	2 086
150 000	—	—	21	240	1 024	1 286	800	2 086
175 000	—	—	21	240	1 024	1 286	800	2 086

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

1 Not including indexation, which appears in the "Indexation" column.

2 Impact of the Child Assistance payment less the non-refundable tax credits respecting children, the tax reduction for families, and family allowances.

3 Impact of the single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of $750 per year).

4 Indexation for 2004, 2005, 2006, 2007 and 2008.

A couple with two children and two earned incomes will see its disposable income grow by:

— $4 774 for a total family income of $25 000;

— $2 751 for a total family income of $75 000;

— $2 504 for a total family income of $125 000.

TABLE F.21

Gain for a couple with two children and two earned incomes –2008

(dollars)

	2004-2005 Budget[1]			2005-2006 and 2006-2007 budgets[1]	2007-2008 Budget[1]			
Earned income	Child Assistance[2]	Work Premium	Single tax system[3]	Deduction for workers	Increase in tax table thresholds and in basic amount	Subtotal	Indexation[4]	Total
0	1 750	—	—	—	—	1 750	199	1 949
15 000	1 750	2 780	—	20	—	4 550	249	4 799
25 000	2 224	1 780	75	390	—	4 469	306	4 774
30 000	1 720	1 280	90	468	110	3 668	597	4 265
35 000	920	780	105	520	110	2 435	597	3 032
40 000	648	280	120	520	110	1 678	706	2 384
50 000	660	—	150	400	110	1 320	645	1 965
60 000	720	—	180	480	110	1 490	797	2 287
65 000	670	—	195	480	240	1 585	867	2 452
70 000	620	—	210	480	440	1 750	867	2 617
75 000	570	—	215	480	640	1 905	845	2 751
100 000	—	—	57	400	720	1 177	677	1 855
125 000	—	—	42	480	859	1 381	1 123	2 504
150 000	—	—	42	480	1 859	2 381	1 123	3 504
175 000	—	—	42	480	1 939	2 461	1 123	3 584

Notes: Figures have been rounded off, so the total may not correspond to the total indicated.
Each spouse earns 50% of the earned income.

1 Not including indexation, which appears in the "Indexation" column.

2 Impact of the Child Assistance payment less the non-refundable tax credits respecting children, the tax reduction for families, and family allowances.

3 Impact of the single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of $750 per year).

4 Indexation for 2004, 2005, 2006, 2007 and 2008.

A single-parent family with one child will see its disposable income go up by:

— $2 756 for a total family income of $15 000;

— $1 905 for a total family income of $30 000;

— $1 676 for a total family income of $50 000.

TABLE F.22

Gain for a single-parent family with one child – 2008

(dollars)

	2004-2005 Budget[1]			2005-2006 and 2006-2007 budgets[1]	2007-2008 Budget[1]			
Earned income	Child Assistance[2]	Work Premium	Single tax system[3]	Deduction for workers	Increase in tax table thresholds and in basic amount	Subtotal	Indexation[4]	Total
0	775	—	—	—	—	775	180	955
15 000	438	1 660	45	234	—	2 377	379	2 756
25 000	683	660	75	260	55	1 733	397	2 130
30 000	667	160	90	330	55	1 302	603	1 905
35 000	681	—	105	270	220	1 276	615	1 891
40 000	631	—	74	240	360	1 305	517	1 821
50 000	531	—	29	240	360	1 160	517	1 676
60 000	511	—	21	280	360	1 172	709	1 881
65 000	461	—	21	280	529	1 291	740	2 031
70 000	335	—	21	280	729	1 366	723	2 089
75 000	135	—	21	280	929	1 366	723	2 089
100 000	—	—	21	240	969	1 231	592	1 823
125 000	—	—	21	240	969	1 231	592	1 823
150 000	—	—	21	240	969	1 231	592	1 823
175 000	—	—	21	240	969	1 231	592	1 823

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

1 Not including indexation, which appears in the "Indexation" column.

2 Impact of the Child Assistance payment less the non-refundable tax credits respecting children, the tax reduction for families, and family allowances.

3 Impact of the single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of $750 per year).

4 Indexation for 2004, 2005, 2006, 2007 and 2008.

A person living alone will see his disposable income increase by:

— $470 for an income of $15 000;

— $937 for an income of $35 000;

— $1 698 for an income of $75 000.

TABLE F.23

Gain for a person living alone – 2008

(dollars)

	2004-2005 Budget[1]		2005-2006 and 2006-2007 budgets[1]	2007-2008 Budget[1]			
Earned income	Work Premium	Single tax system[2]	Deduction for workers	Increase in tax table thresholds and in basic amount	Subtotal	Indexation[3]	Total
10 000	481	—	30	—	511	9	520
15 000	—	45	215	—	260	210	470
25 000	—	75	160	55	290	206	496
30 000	—	90	230	55	375	339	714
35 000	—	105	230	220	555	382	937
40 000	—	74	200	360	634	284	918
50 000	—	29	200	360	589	284	873
60 000	—	21	240	360	621	476	1 098
65 000	—	21	240	529	791	507	1 298
70 000	—	21	240	729	991	507	1 498
75 000	—	21	240	929	1 191	507	1 698
100 000	—	21	240	969	1 231	507	1 738
125 000	—	21	240	969	1 231	507	1 738
150 000	—	21	240	969	1 231	507	1 738
175 000	—	21	240	969	1 231	507	1 738

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

1 Not including indexation, which appears in the "Indexation" column.

2 Impact of the single tax system for a salaried worker who pays union dues equal to 1.5% of his salary (maximum contribution of $750 per year).

3 Indexation for 2004, 2005, 2006, 2007 and 2008.

4.3 Disposable household income

Since 2003, the measures implemented by the government have appreciably increased the disposable income of all Québec taxpayers.

Québec families receive the most generous assistance of any of the Canadian provinces, in particular through:

— Child Assistance;

— the Work Premium.

In 2008, after taking into consideration all of these measures, the disposable income of a couple with two children will be:

— $22 080 if the couple has no earned income;

— $45 631 if the couple has two earned incomes totalling $50 000;

— $72 874 if the couple has two earned incomes totalling $100 000.

TABLE F.24

Disposable income, including the 2007-2008 Budget measures
Couple with two children and two earned incomes – 2008

(dollars)

	Québec government								Federal government					
Earned income	Social assis-tance	Child Assis-tance	Work Premium	Shelter allow-ance	QST credit	Property tax refund	Québec income tax	Québec sub-total	CCTB[1]	GST credit	Federal income tax[2]	Federal subtotal	Contribu tions and premiums[3]	Disposable income
0	10 284	3 199	—	960	350	109	—	14 903	6 437	740	—	7 177	—	22 080
5 000	8 978	3 199	350	960	350	109	—	13 946	6 437	740	—	7 177	-94	26 030
10 000	4 220	3 199	1 600	960	350	109	—	10 439	6 437	740	—	7 177	-336	27 280
15 000	—	3 199	2 850	960	350	109	—	7 469	6 437	740	—	7 177	-677	28 968
20 000	—	3 199	2 502	880	350	109	—	7 040	6 437	740	—	7 177	-1 019	33 198
25 000	—	3 199	2 032	—	350	109	—	5 690	5 586	740	—	6 326	-1 360	35 656
30 000	—	3 199	1 562	—	350	109	-426	4 794	4 437	740	-495	4 682	-1 701	37 775
35 000	—	3 199	1 082	—	256	15	-1 194	3 358	3 288	568	-1 064	2 791	-2 043	39 107
40 000	—	3 199	582	—	106	—	-1 994	1 893	2 533	318	-1 667	1 184	-2 384	40 692
45 000	—	3 199	82	—	—	—	-2 794	487	2 333	68	-2 270	131	-2 725	42 892
50 000	—	3 032	—	—	—	—	-3 594	-562	2 133	—	-2 873	-740	-3 067	45 631
55 000	—	2 832	—	—	—	—	-4 394	-1 562	1 933	—	-3 476	-1 543	-3 408	48 487
60 000	—	2 632	—	—	—	—	-5 194	-2 562	1 733	—	-4 079	-2 346	-3 749	51 343
65 000	—	2 432	—	—	—	—	-5 994	-3 562	1 533	—	-4 682	-3 149	-4 090	54 198
70 000	—	2 232	—	—	—	—	-6 794	-4 562	1 333	—	-5 285	-3 952	-4 432	57 054
75 000	—	2 032	—	—	—	—	-7 594	-5 562	1 133	—	-5 888	-4 755	-4 773	59 910
80 000	—	1 832	—	—	—	—	-8 514	-6 682	933	—	-6 716	-5 783	-5 114	62 420
85 000	—	1 632	—	—	—	—	-9 514	-7 882	733	—	-7 600	-6 867	-5 383	64 868
90 000	—	1 432	—	—	—	—	-10 514	-9 082	533	—	-8 500	-7 968	-5 522	67 428
95 000	—	1 232	—	—	—	—	-11 514	-10 282	333	—	-9 416	-9 083	-5 543	70 091
100 000	—	1 151	—	—	—	—	-12 514	-11 363	133	—	-10 332	-10 199	-5 564	72 874
125 000	—	1 151	—	—	—	—	-17 514	-16 363	—	—	-14 915	-14 915	-5 639	88 084

Notes: Figures have been rounded off, so the total may not correspond to the total indicated.
Each spouse earns 50% of the earned income.

1 Canada Child Tax Benefit and National Child Benefit supplement.
2 After abatement. Includes the Child Tax Credit but not the Working Income Tax Benefit, the parameters of which have not yet been determined for Québec.
3 Includes Québec Pension Plan contributions, employment insurance premiums and contributions to the Québec parental insurance plan.

TABLE F.25

Disposable income, including the 2007-2008 Budget measures
Person living alone – 2008

(dollars)

	Québec government						Federal government				
Earned income	Social assistance	Work Premium	QST credit	Property tax refund	Québec income tax	Québec subtotal	GST credit	Federal income tax[1]	Federal subtotal	Contributions and premiums[2]	Disposable income
0	6 636	—	294	174	—	7 104	242	—	242	—	7 346
5 000	4 204	182	294	174	—	4 854	269	—	269	-168	9 955
10 000	—	520	294	174	—	988	285	—	285	-509	10 763
15 000	—	93	294	174	—	561	370	-495	-125	-851	14 585
20 000	—	—	294	174	-756	-288	370	-1 098	-728	-1 192	17 792
25 000	—	—	294	174	-1 556	-1 088	370	-1 700	-1 330	-1 533	21 048
30 000	—	—	294	174	-2 356	-1 888	370	-2 303	-1 933	-1 875	24 304
35 000	—	—	170	50	-3 280	-3 059	198	-2 906	-2 709	-2 216	27 016
40 000	—	—	20	—	-4 257	-4 237	—	-3 622	-3 622	-2 557	29 584
45 000	—	—	—	—	-5 257	-5 257	—	-4 514	-4 514	-2 761	32 468
50 000	—	—	—	—	-6 257	-6 257	—	-5 430	-5 430	-2 782	35 531
55 000	—	—	—	—	-7 257	-7 257	—	-6 346	-6 346	-2 803	38 594
60 000	—	—	—	—	-8 257	-8 257	—	-7 262	-7 262	-2 819	41 661
65 000	—	—	—	—	-9 257	-9 257	—	-8 181	-8 181	-2 819	44 743
70 000	—	—	—	—	-10 257	-10 257	—	-9 099	-9 099	-2 819	47 824
75 000	—	—	—	—	-11 257	-11 257	—	-10 018	-10 018	-2 819	50 906
80 000	—	—	—	—	-12 417	-12 417	—	-11 075	-11 075	-2 819	53 689
85 000	—	—	—	—	-13 617	-13 617	—	-12 161	-12 161	-2 819	56 403
90 000	—	—	—	—	-14 817	-14 817	—	-13 246	-13 246	-2 819	59 118
95 000	—	—	—	—	-16 017	-16 017	—	-14 332	-14 332	-2 819	61 832
100 000	—	—	—	—	-17 217	-17 217	—	-15 417	-15 417	-2 819	64 547
125 000	—	—	—	—	-23 217	-23 217	—	-20 887	-20 887	-2 819	78 077

Note: Figures have been rounded off, so the total may not correspond to the total indicated.

1 After abatement. Includes the Child Tax Credit but not the Working Income Tax Benefit, the parameters of which have not yet been determined for Québec.

2 Includes Québec Pension Plan contributions, employment insurance premiums and contributions to the Québec parental insurance plan.

Section G

Sustainable Economic Development

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1. Strengthening the Competitiveness of Businesses and Stimulating Investment

Private investment is one of the principal means of increasing productivity and the standard of living and, consequently, is a key factor in creating prosperity. It is by investing that businesses can develop better processes and products, strengthen their market position and create more wealth. The result is better-quality and better-paid jobs.

The manufacturing sector is currently faced with major challenges owing to the higher Canadian dollar and increasingly fierce competition from emerging economies such as China and India. By investing, businesses can upgrade their facilities and equipment and, thereby, continue and expand their operations.

To encourage businesses to invest at home rather than abroad, we need to offer them a competitive tax system that compares favourably with those of the countries and jurisdictions against which Québec competes.

To strengthen the economy and, more specifically, encourage businesses to invest and help them become more globally competitive, the government is announcing a significant reduction in corporate taxes, including the tax on capital and income tax. To that end, the 2007-2008 Budget includes:

- A plan for eliminating the tax on capital that consists in:
  - phasing out the tax on capital for all businesses by January 1, 2011;
  - immediately eliminating the tax on capital for manufacturing businesses that invest, by:
    - increasing in the rate of the capital tax credit from 5% to 10%;
    - extending the capital tax credit, including the 15% capital tax credit for primary wood processing activities, until the tax on capital has been eliminated.
- An income tax reduction for businesses that invest, by raising capital cost allowance rates:
  - for investments in manufacturing and processing material and equipment;
  - for investments in buildings, computer hardware and other specified assets.

When fully implemented, the measures announced in the 2007-2008 Budget[1] represent an annual injection by the government of nearly $900 million to bolster the economic prosperity of businesses and their workers. These initiatives will reduce the cost of investing and stimulate modernization of businesses.

The government will take advantage of Ottawa's proposed financial compensation to the provinces to eliminate their capital taxes by 2011. The federal contribution is estimated at $280 million over four years.

TABLE G.1

Strengthening the competitiveness of businesses and stimulating investment

(millions of dollars)

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Plan to eliminate the tax on capital					
Phasing out of the tax on capital for all businesses by January 1, 2011	—	– 34	– 231	– 571	– 889
Immediate elimination of the tax on capital for manufacturing businesses that make new investments[1]					
- Increase in the rate of the capital tax credit from 5% to 10% and extension until elimination of the tax on capital	– 67	– 134	– 110	– 44	—
- Extension of the 15% capital tax credit for primary wood processing activities until elimination of the tax on capital	—	—	– 4	– 2	—
Increase in the deduction in the calculation of tax on capital payable by farm and fishing corporations from $400 000 to $5 million	– 9	– 6	– 4	– 2	—
Subtotal	**– 76**	**– 174**	**– 349**	**– 619**	**– 889**
Federal financial compensation towards elimination of the tax on capital[2]	**15**	**63**	**102**	**100**	**—**
Increase in capital cost allowance rates for investments					
Accelerated capital cost allowance for manufacturing and processing machinery and equipment	– 19	– 78	– 70	20	45
Increase in capital cost allowance rates for buildings, computer hardware and certain other assets	– 8	– 19	– 25	– 25	– 25
Subtotal	**– 27**	**– 97**	**– 95**	**– 5**	**20**
TOTAL	**– 88**	**– 208**	**– 342**	**– 524**	**– 869**

1 For investments in manufacturing and processing machinery and equipment.
2 Québec government estimate based on the parameters used to calculate the temporary incentive announced in the federal government's 2007 Budget Plan.

1 Initiatives relating to the corporate tax system are explained in greater detail in *Additional Information on the Budgetary Measures*.

1.1 Phasing out of the tax on capital for all businesses by January 1, 2011

The government's determination to speed up Québec's economic development and enable all of the regions to reap the benefits of our increased prosperity hinges on, among other things, additional support for private investment.

The tax on capital hampers investment in all sectors of economic activity. By increasing the cost to businesses, it constitutes a disincentive to investment, which in turn affects our economic growth, employment and standard of living.

So in order to encourage investment, we must first stop taxing it. And since businesses pay capital tax on their investments rather than on their earnings, eliminating this tax is crucial to making Québec's tax system more competitive and spurring investment and modernization of our businesses.

Québec had already initiated a plan to reduce the tax on capital by more than 50% by 2009. The new plan announced in the 2007-2008 Budget provides for its complete elimination for all businesses by January 1, 2011. The general rate of the tax on capital will be reduced from 0.49% to 0.36% on January 1, 2008, and then to 0.24% on January 1, 2009, and to 0.12% on January 1, 2010. The capital tax will be abolished on January 1, 2011.

TABLE G.2

Plan for eliminating the tax on capital
(general rate of the tax on capital, in percent)

	2005	2006	2007	2008	2009	2010	2011
Current plan for reducing the tax on capital	0.60	0.525	0.49	0.36	0.29	0.29	0.29
New plan in the 2007-2008 Budget	0.60	0.525	0.49	0.36	0.24	0.12	Tax abolished

Note: Rate in effect on January 1 of each year. In the case of financial institutions, the applicable rate is double the general rate.

The capital tax rate will be reduced at the same rate for financial institutions. It will be lowered from 0.98% to 0.72% effective January 1, 2008, and then to 0.48% on January 1, 2009, and 0.24% on January 1, 2010. The capital tax applicable to financial institutions will be eliminated on January 1, 2011.

The rules relating to the countervailing charge applicable to financial institutions, the capital tax applicable to insurance companies and the capital tax applicable to life insurers will continue to apply.

Economic Impact of the Tax on Capital

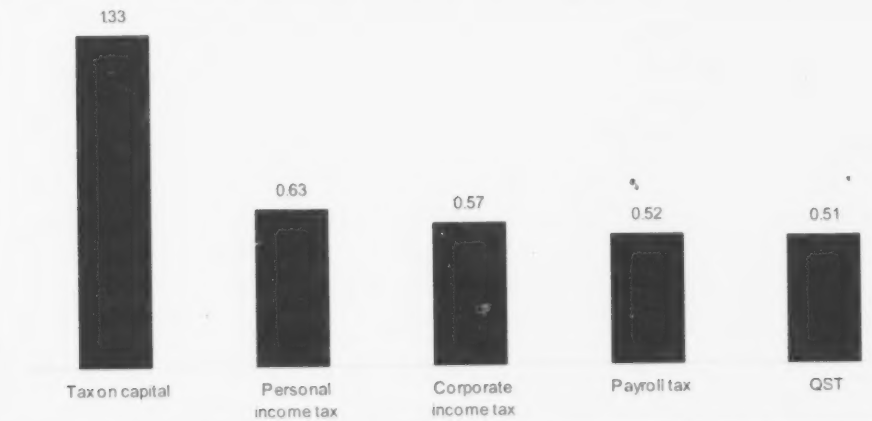
The tax on capital is levied on the paid-up capital[2] of a company. It is essentially a tax on business assets and applies recurrently as long as the book value of investments is positive. Thus, it directly increases the cost of investments and lowers their return. In addition, the tax on capital increases the risk associated with an investment, since it is payable whether or not the company is profitable.

The tax on capital also hinders employment:

- in the short term, by reducing the leeway available to companies;
- in the longer term, by compromising investments that could improve the competitiveness and productivity of businesses;
- in addition, by undermining productivity, workers' remuneration is diminished.

Because it impedes capital accumulation, the tax on capital affects the economy's potential growth more strongly than other taxes.

Impact on real GDP per dollar of tax reduction[1]
(dollars)



1 Long-term impact of tax reductions estimated using the general equilibrium model of the ministère des Finances du Québec. Simulations were performed on a revenue-neutral basis for the government. The government's loss of revenue is offset by a levy that has no influence on economic agents' behaviour.

2 Paid-up capital generally refers to a company's total capital stock, retained earnings, borrowings and other long-term debts.

All of the other provinces with capital taxes have either eliminated or promised to eliminate them. Québec's plan in this regard will create a more competitive corporate tax system in relation to the Canadian provinces.

TABLE G.3

Principal parameters of Canadian tax systems – 2011[1]

	Tax on capital[2]			Corporate income tax[3]	Payroll tax
	Rate in 2007 (%)	Rate in 2011 (%)	Year tax eliminated	(%)	(%)
Québec	**0.49**	—	**2011**	**11.9**	**2.70 to 4.26**
British Columbia	—	—	2002	12.0	—
Alberta	—	—	—	10.0	—
Saskatchewan	0.30	—	2008	12.0	—
Manitoba[4]	0.30 to 0.50	—	2011	12.0	2.15 to 4.30
Ontario	0.285	—	2010	14.0	1.95
New Brunswick	0.20	—	2009	13.0	—
Nova Scotia[5]	0.25	0.10	2012	16.0	—
Prince Edward Island	—	—	—	16.0	—
Newfoundland and Labrador	—	—	—	14.0	2.00
Federal	—	—	2006	18.5	—

Note: Rate in effect on January 1.

1 Parameters for 2011, unless otherwise indicated.
2 General rate of the tax on capital.
3 General corporate income tax rate.
4 Manitoba announced its intention to phase out its tax on capital by 2011 and raise its general corporate income tax rate to 12% if its financial position so allows.
5 Nova Scotia will eliminate its tax on capital on July 1, 2012.

1.2 Immediate elimination of the tax on capital for manufacturing businesses that make new investments

Eliminating the tax on capital on January 1, 2011, will significantly reduce the cost of investments and spur the modernization of businesses. However, these are hard times for manufacturing businesses and they find themselves having to invest a lot of money fast in order to upgrade their manufacturing and processing machinery and equipment. To support them in these efforts, the government is immediately eliminating the tax on capital for manufacturing businesses that invest.

Introduced in the 2005-2006 Budget, the non-refundable capital tax credit for new investments in manufacturing and processing equipment not only eliminates the tax on capital normally payable on new business investments, but also eliminates or considerably reduces the tax on capital applied to existing buildings, machinery and equipment. Initially, investments had to be made before January 1, 2008, in order to be eligible.

In order to rid the manufacturing sector of the capital tax burden more quickly, the government is raising the rate of the capital tax credit for new investments in manufacturing and processing machinery and equipment from 5% to 10%. In addition, the government is extending the application period for the capital tax credit until elimination of the tax on capital.

The assistance plan for the forest industry announced in the 2006-2007 Budget raised the rate of the capital tax credit to 15% for manufacturing and processing machinery and equipment used in primary processing of forest products and acquired before January 1, 2010. The application period for this component of the capital tax credit is also being extended until elimination of the tax on capital.

Manufacturing businesses can thus stop paying tax on capital as of today.

Modernization of businesses: Illustration of the impacts of the 10% capital tax credit

The 10% capital tax credit applies to the cost of new acquisitions of manufacturing and processing machinery and equipment. It is applied against the tax on capital payable in respect of all of a company's activities.

Raising the rate of the capital tax credit from 5% to 10% will eliminate the tax on capital sooner, on all of their activities, for companies that invest in manufacturing and processing machinery and equipment.

This is particularly true for companies that carry out major upgrading projects. For example, a company with initial assets of $50 million that makes $10 million in eligible investments will no longer pay the tax on capital. This represents a tax reduction of $726 000 over four years, which can be reinvested in the company.

Case 1 – Major modernization of a manufacturing business
(thousands of dollars)

Initial assets (buildings, machinery and equipment)	50 000	The capital tax credit eliminates the tax on capital payable by the company on all of its activities
Eligible investments (manufacturing and processing machinery and equipment)	10 000	
Capital tax credit (10% on eligible investments)	***1 000***	

	2007	2008	2009	2010	2011	TOTAL
Taxable capital (paid-up capital)	60 000	60 000	60 000	60 000	—	
Rate of the tax on capital	0.49%	0.36%	0.24%	0.12%	—	
Tax on capital payable before credit	294	216	144	72	—	726
Capital tax credit	***–294***	***–216***	***–144***	***–72***	—	***–726***
Tax on capital payable	—	—	—	—	—	—
Reduction in the tax on capital	100%	100%	100%	100%	100%	**100%**
Carry-over of the balance of the tax credit	***706***	***490***	***346***	—	—	

Recurring investments for the renewal of manufacturing machinery and equipment will also enable companies to eliminate their tax on capital. A company with $15 million in assets that makes eligible investments of $1 million per year over three years should never again pay tax on capital. This represents a tax reduction of $204 000 over four years, which can be reinvested in the company.

Case 2 – Renewal of manufacturing machinery and equipment
(thousands of dollars)

Initial assets (buildings, machinery and equipment)	15 000	The capital tax credit eliminates the tax on capital payable by the company on all of its activities		
Eligible investments (manufacturing and processing machinery and equipment)	1 000	1 000	1 000	
Capital tax credit (10% on eligible investments)	***100***	***100***	***100***	

	2007	2008	2009	2010	2011	TOTAL
Taxable capital (paid-up capital)	16 000	17 000	18 000	18 000	—	
Rate of the tax on capital	0.49%	0.36%	0.24%	0.12%	—	
Tax on capital payable before credit	78	61	43	22	—	204
Capital tax credit	***–78***	***–61***	***–43***	***–22***	—	***–204***
Tax on capital payable	—	—	—	—	—	—
Reduction in the tax on capital	100%	100%	100%	100%	100%	**100%**
Carry-over of the balance of the tax credit	***22***	***61***	***118***	—	—	

1.3 Increase from $400 000 to $5 million in the deduction in the calculation of tax on capital payable by farm and fishing corporations

Agriculture and fisheries are capital-intensive sectors of economic activity. Yet, these sectors mostly consist of small and medium-sized enterprises that have to make numerous investments in order to turn a profit on their activities and support competition from foreign companies. The worrisome economic situation in the agricultural sector even led the government to create a commission on the future of Québec's agriculture and agri-food industry. The commission is expected to submit its report and recommendations no later than January 2008.

In the meantime, the government wants to support farm and fishing corporations by eliminating their tax on capital more quickly. Therefore, in order to spur investment by farm and fishing corporations, the government is raising the amount of the deduction in the calculation of their capital tax from $400 000 to $5 million.

Added to the $1 million capital tax exemption for SMEs, this measure exempts 99% of farm and fishing corporations—over 7 000 corporations—from paying this tax. The government is thus injecting $9 million this year into the working capital of these corporations. This measure entered into effect on February 21, 2007.

TABLE G.4

Impact of the increase from $400 000 to $5 million in the deduction in the calculation of tax on capital payable by farm and fishing corporations – 2007-2008

	Before February 21, 2007		Since February 21, 2007		Number of new corporations exempted	Financial impact ($M)
	Number	%	Number	%		
Exempted corporations	4 789	67.6	7 012	99.0	2 223	– 9.0

1.4 Increase in capital cost allowance rates for investments

Depreciation reduces the income tax burden on corporations that invest. To encourage new investment, the government is raising the capital cost allowance rate for manufacturing investments, buildings, computer hardware and some other assets.

Raising capital cost allowance rates allows businesses to deduct depreciation costs more quickly in calculating their income. This lowers their income even more which, in turn, eases the tax load borne by businesses following investments faster. Raising capital cost allowance rates is therefore an ideal way to facilitate and accelerate investment decisions.

1.4.1 Accelerated capital cost allowance for manufacturing and processing machinery and equipment

Québec manufacturing businesses have to invest in upgrading their facilities and use modern efficient equipment in order to be competitive and overcome the challenges they face.

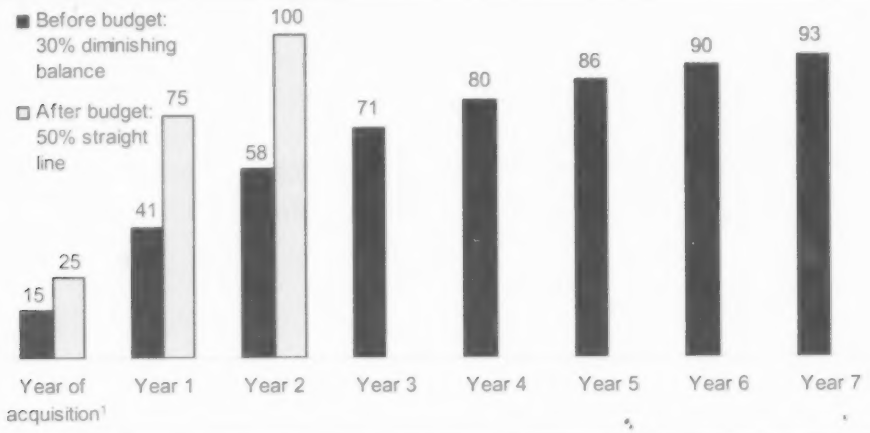
To that end, a temporary measure is being introduced to enable accelerated capital cost allowance for manufacturing and processing machinery and equipment, which accounts for the vast majority of manufacturing investments.

The capital cost allowance rate is being raised from 30% to 50% for manufacturing and processing machinery and equipment acquired before 2009. Machinery and equipment can henceforth be depreciated on a straight-line basis instead of on a diminishing-balance basis. This change will allow businesses to depreciate investments over a shorter period.

This means that manufacturing and processing machinery and equipment acquired before 2009 can be depreciated over an average period of two years rather than the usual seven years or more.

CHART G.1

Illustration of the impact of accelerated capital cost allowance for manufacturing and processing machinery and equipment
(accumulated depreciation, percent of acquisition cost)



1 In the year of acquisition, purchases are subject to the half-year rule.

1.4.2 Increase in capital cost allowance rates for buildings, computer hardware and certain other assets

Capital cost allowance (CCA) rates will be raised for certain investments to better reflect the useful life of assets.

The CCA rate for buildings used in the manufacturing and processing of goods is being increased to 10% to more accurately reflect the heavy use made of these assets. The rate applied to other non-residential buildings is going up to 6%.

In addition, computer hardware can now be depreciated at a rate of 55%.

TABLE G.5

Increase in capital cost allowance rates
(percent)

Asset	Current CCA rates	New CCA rates
Buildings used in manufacturing and processing	4	10
Other non-residential buildings	4	6
Computer hardware	45	55
Natural gas distribution lines	4	6
Liquefied natural gas facilities	4	8

As a result of the cost allowance measures, businesses will have received an estimated $219 million in tax relief by 2009-2010.

1.5 Impact of measures on the competitiveness of Québec's corporate tax system

The measures announced in the 2007-2008 Budget will have a major impact on businesses. They will ease the tax burden relating to investment as well as keep Québec's tax system competitive at the international level.

1.5.1 Significant support for the manufacturing sector

The plan to eliminate the tax on capital, the capital tax credit and the increase in capital cost allowance rates will considerably reduce the tax burden on manufacturing businesses.

The table below illustrates the 10-year impact of these measures on the tax burden of manufacturing businesses that make investments.

— The tax load on these businesses will be cut by 21%, on average, between 2007 and 2016.

— Over 60% of this reduction arises from elimination of the tax on capital.

TABLE G.6

Impact of measures to spur investment
Investments of typical manufacturing businesses
(thousands of dollars)

	Investment		Tax burden relating to investment (2007-2016)[1]					
				Tax relief				
Manufacturing businesses	Total	Manufacturing and processing machinery and equipment	Tax burden (before measures)	Plan to eliminate tax on capital	10% capital tax credit	Increase in CCA rates	Tax burden (after measures)	Reduction (%)
Precision components	9 400	3 500	2 749	– 350	– 131	– 43	2 225	– 19%
Plastic products	11 200	2 300	4 830	– 489	– 156	– 170	4 015	– 17%
Food processing	11 400	5 200	5 120	– 524	– 158	– 98	4 340	– 15%
Metals machining	12 100	3 600	4 871	– 518	– 171	– 165	4 018	– 18%
Pharmaceutical production	15 300	6 900	4 171	– 540	– 201	– 143	3 287	– 21%
Electronic components	21 400	9 200	4 699	– 688	– 280	– 243	3 488	– 26%
Specialized chemical products	28 900	16 200	3 947	– 810	– 365	– 145	2 626	– 33%
Mean			**4 341**	**– 560**	**– 209**	**– 144**	**3 428**	**– 21%**

Note: Simulations performed using the KPMG Competitive Alternatives licensed cost model.
1 Québec tax on capital and corporate income tax.

1.5.2 More competitive corporate tax system

The tax level is a major contributing factor to businesses' ability to compete. Some taxes directly affect their return on capital as well as their investment decisions. Others, such as payroll taxes, tend to increase businesses' operating costs.

The actions taken in the 2007-2008 Budget will substantially reduce the tax burden relating to return on capital and make the tax system more competitive overall in relation to other jurisdictions.

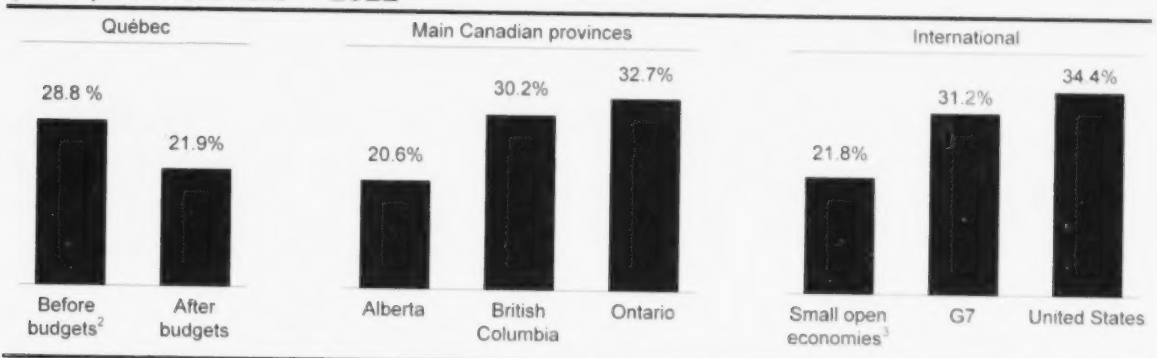
❑ One of the lowest tax rates on investment

Elimination of the tax on capital and the increase in capital cost allowance rates will significantly reduce the weight of taxation on each dollar invested, as measured by the marginal effective tax rate (METR) on investment, from 28.8% to 21.9% in 2011.

This will put Québec in an excellent position within Canada and allow it to compete with other countries in attracting and retaining investments.

CHART G.2

Comparison of marginal effective tax rates (METR) on investment[1] - 2011



Note: The METRs of Canadian provinces were estimated by applying the provinces' tax system to Québec's economic structure.

1 METRs on investment are indicators of the impact of the tax system on new investments: they represent the effect of all tax expenses and rules affecting the return on capital invested. They take into account the tax on capital, sales tax, corporate income tax, depreciation rules and rates, and accounting methods for inventory.

2 Before the measures in Québec's 2007-2008 Budget and the federal government's Budget 2007.

3 Economies that are highly dependent on trade with larger economic partners. For example, Switzerland, Australia, Ireland, Sweden and Norway are all small open economies.

Source: Ministère des Finances du Québec.

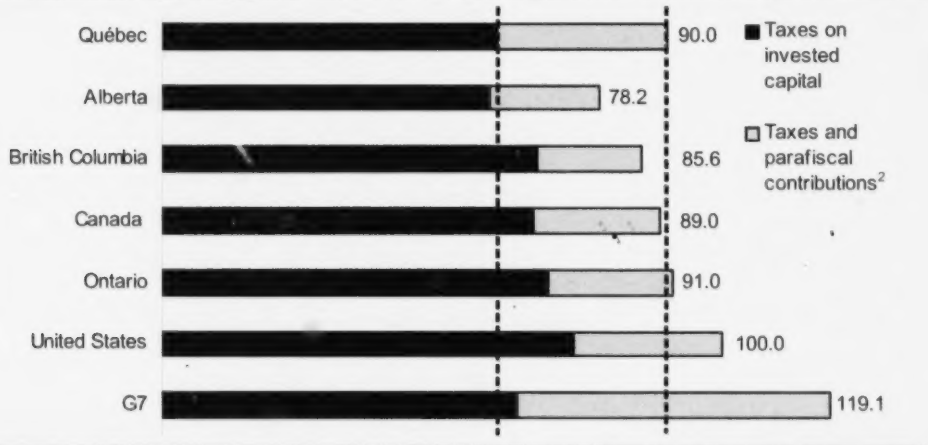
❑ A more competitive tax system overall for the manufacturing sector

The overall tax competitiveness index, determined using the KPMG Competitive Alternatives licensed cost model, also demonstrates that Québec has among the lowest tax costs relating to investments.

Even with the impact of payroll taxes[3] that increase operating costs, Québec's overall cost of taxation will now compare with the Canadian average and be globally competitive.

CHART G.3

Tax competitiveness index – manufacturing sector[1]
(index: United States = 100)



Note: The tax competitiveness index is established on the basis of the given jurisdiction's tax system and by applying it to the costs of setting up and operating companies in Montréal in seven manufacturing sectors. All tax expenses at the various levels of government, including parafiscal contributions, were applied over a 10-year period (2007-2016). The lower the index, the more competitive the jurisdiction's general tax system.

1 Estimated using the KPMG Competitive Alternatives licensed cost model.

2 Includes payroll taxes and employer contributions to public sector retirement plans, Employment Insurance and health/workmen's compensation insurance.

Sources: KPMG and ministère des Finances du Québec.

3 In Québec, payroll taxes include employer contributions to the Régie des rentes du Québec, the Québec Parental Insurance Program, the Commission des normes du travail, the Commission de la santé et de la sécurité du travail and the Employment Insurance Program.

2. SUPPORTING THE ECONOMIC DEVELOPMENT OF EVERY REGION

2.1 Strategy for the Development of Every Region

On February 20 of this year, the government introduced the Strategy for the Development of Every Region with a view to making the regions more autonomous and more prosperous.

The strategy defines a range of measures for all regions, in particular Montréal and Québec's capital. The measures reflect two approaches being implemented by the government simultaneously.

— Additional resources are being offered to the regions and placed under their authority. In this way, the government is providing every region with new resources and changing how things are done so that greater autonomy can be applied in using these resources.

— The government is allocating additional resources to programs under its direct responsibility. Here, the government is adding further means under initiatives it administers, but adapted to the realities of each region.

The government will allocate $825 million over the next five years to measures aimed at giving the regions greater autonomy and ability to act in the area of economic development. The Strategy for the Development of Every Region gives the regions the means to take greater responsibility for their development. The paper published on February 20, 2007, details the directions and measures under the strategy. The following table provides an overview of those measures as well as the related funding.

TABLE G.7

Strategy for the Development of Every Region

(millions of dollars)

	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	TOTAL
1. Additional resources under the control of the regions						
Fonds de développement régional (FDR) – under the authority of the CREs – for CRE funding, adaptation of government programs and economic diversification assistance	55	55	60	65	65	300
Economic development efforts shepherded by the regions						
– Support for the development of niches of excellence – ACCORD projects	10	12	17	18	18	75
– Improved entrepreneurship supported by the regional CLDs						
▪ Support for business start-up projects	7	12	13	14	14	60
▪ Financial support for the preparation of business projects	4	5	7	7	7	30
Subtotal	21	29	37	39	39	165
Support for the development of Québec's capital[1]	5	5	5	5	5	25
Support for the economic development of Montréal	17	18	35	35	35	140
Funding for regional natural resource and land commissions	9	9	9	9	9	45
Subtotal	**107**	**116**	**146**	**153**	**153**	**675**
2. Additional resources allocated to government programs for the regions						
Support for investment and business productivity						
– Increase in funding for the economic projects support program (PSPE)	7	7	10	12	12	48
– Support to businesses to improve productivity	7	8	11	12	13	51
Support for the mining sector	7	7	7	—	—	21
Support for farming and fisheries	5	5	5	5	5	25
Tourism in the regions[2]	5	—	—	—	—	5
Subtotal	**31**	**27**	**33**	**29**	**30**	**150**
TOTAL – Strategy for the Development of Every Region	**138**	**143**	**179**	**182**	**183**	**825**

1 Amounts to which is added $110 million allocated for the festivities celebrating the 400th anniversary of the founding of Québec City.

2 An additional $3 million will be earmarked in the Contingency Fund for the ministère du Tourisme in the *2007-2008 Expenditure Budget*, raising the additional sums allocated to this department to $8 million.

2.2 Tax assistance for certain territories and economic sectors

2.2.1 Task force on the end of tax assistance for certain territories and economic sectors

On February 20 of this year, the government announced the creation of a task force to thoroughly examine the impact on Québec businesses of the end of the tax measures for businesses in resource regions and the new economy. The task force will indeed be created and be chaired by Robert Gagné, full professor and director of the Institut d'économie appliqué of the École des Hautes Études Commerciales (HEC) de Montréal.

The mandate of the task force will be to examine two types of tax assistance:

— the tax assistance granted to manufacturing businesses in resource regions, i.e. the three tax credits relating to secondary and tertiary natural resource processing (end in 2009) and the tax holiday for manufacturing SMEs (ends in 2010);

— the tax credits for new economy businesses set up in designated sites (e.g. Cité du multimédia, E-Commerce Place and new economy centres in the regions). These measures end between 2010 and 2013.

The task force will make recommendations to the government regarding the best directions to be adopted for the territories and economic sectors affected by the expiry of these tax measures. Among other results, the work carried out by the task force should make it possible to:

— draw a portrait of these tax assistance measures;

— identify the measures' impact on:

  — recipient businesses and other businesses in Québec; and

  — development of the territories and activity sectors concerned;

— examine the government support that other jurisdictions offer to their specific territories and sectors;

— recommend economic measures for developing these territories and sectors of activity.

The task force is expected to submit its report in December 2007.

2.2.2 Withdrawal of wage indexation for the purposes of calculating the refundable tax credit for processing activities in the resource regions

Currently, businesses located in resource regions can claim a 30% refundable tax credit for secondary and tertiary natural resource processing.

The tax credit is granted in respect of the wages paid for jobs created by corporations established in a Québec resource region and applies until December 31, 2009. It is calculated based on the payroll increase attributable to employees assigned to production jobs.

The government was made aware of the fact that this tax credit can benefit businesses operating in resource regions by granting them a tax benefit on payroll increases attributable to the indexation of the wages of all of the business's eligible employees. This makes it possible to apply the tax assistance not only to wages paid in respect of jobs created by a business, but also to an increase in payroll attributable to indexation of wages paid for existing jobs.

To remedy this situation and retarget the tax credit to the goal of job creation, the tax credit will be amended such that wage indexation will no longer be considered in calculating the amount of the tax assistance for calendar years 2008 and 2009. The payroll giving entitlement to the tax credit will be reduced by 2% per year, that is, by 2% in 2008 and by 4% in 2009.

However, this change will not apply to the refundable tax credit for Gaspésie and certain maritime regions of Québec or the refundable tax credit for the Vallée de l'aluminium.

When fully implemented, the change will cut the cost of the tax credit to the government by $5 million per year.

3. Nearly 20% Reduction in Remittances for Small Businesses

Another way of making our businesses more competitive is to ease their administrative burden. Remitting their income tax and the taxes, contributions, etc. collected on behalf of the government is burdensome for businesses in general, but even more so for small-business owners who have few resources to allocate to this task.

Therefore, to ease the administrative burden on small businesses, the government is reducing the number of remittances by nearly 20% through several measures, including:

— quarterly, rather than monthly, instalment payments for certain small corporations;

— increase in the threshold amount below which corporations do not have to pay instalments;

— increase in the Québec sales tax (QST) threshold below which businesses can make one QST remittance a year.

In addition, in order to reduce the red tape individuals must deal with, the government will raise the personal income tax instalment threshold.

Reduction in the number of income tax instalments and QST remittances

Corporate taxes

- Quarterly, instead of monthly, instalment payments for certain small, Canadian-controlled private corporations.
- Increase from $1 000 to $3 000 in the threshold amount at which corporations can pay taxes once a year.

Payroll deductions and employer contributions

- Increase from $1 000 to $3 000 in the average monthly threshold for remitting payroll deductions by quarterly rather than monthly instalments.
- Increase from $1 200 to $2 400 in the annual threshold for remitting deductions once a year.

Québec sales tax

- Increase from $500 000 to $1.5 million in the taxable supplies threshold for annual filing of the QST return.
- Increase from $1 500 to $3 000 in the net tax threshold below which QST filers can make one remittance per year.

Personal income tax

- Increase from $1 200 to $1 800 in the net personal income tax instalment threshold.

❑ Significant easing of the administrative burden on small businesses

These measures will ease the tax burden on small businesses by reducing the number of remittances by 1.5 million and, consequently, increasing their cash flow in the short term.

— Approximately 24 000 small corporations will no longer have to make instalment payments during the year, while 58 000 others will be able to make quarterly rather than monthly instalments. Some small corporations will now be able to make 1 remittance rather than 12.

— Nearly 20 000 small businesses will only have to remit source deductions and employer contributions once a year. In addition, 58 000 more will be able to remit their source deductions and employer contributions by quarterly rather than monthly instalments. These businesses will now make 4 remittances per year rather than 12.

— Roughly 40 000 small businesses will be able to make just one QST remittance rather than four per year.

— Nearly 34 000 individuals will no longer have to pay income tax and contribution instalments during the year.

TABLE G.8

Easing of the administrative burden of small businesses
Impact of the reduction in the number of remittances

	Total number of remittances (current system)	Reduction in remittances		Number of businesses or individuals targeted
		Number	%	
Corporate income tax				
Quarterly rather than monthly instalments for small businesses Increase from $1 000 to $3 000 in the threshold amount for paying once a year	1 200 000	733 000	61	82 000
Payroll deductions and employer contributions				
Increase from $1 000 to $3 000 in the monthly threshold for remitting deductions and contributions on a quarterly basis Increase from $1 200 to $2 400 in the annual threshold for remitting deductions and contributions once a year	3 100 000	523 000	17	78 000
Québec sales tax				
Increase from $1 500 to $3 000 in the threshold for make one remittance per year	2 500 000	120 000	5	40 000
Personal income tax				
Increase from $1 200 to $1 800 in the income tax instalment threshold	1 400 000	136 000	10	34 000
TOTAL	**8 200 000**	**1 512 000**	**18**	

4. Impact of Government Actions on Sustainable Economic Development

In recent years, the government has put in place a complete range of economic measures, whether fiscal, budgetary or social, to increase prosperity for all Quebecers.

When fully implemented, these actions will have a positive impact on the standard of living in Québec. Real GDP will grow by 4.1% relative to the forecast level without these actions, for an additional increase of over $11 billion. This represents an added 0.25 percentage points or so to Québec's annual economic growth rate.

Every Québec household will gain from this new prosperity. The standard of living will rise by nearly $1 500 per capita, and the wealth disparity that continues to exist between Québec and the other Canadian provinces will be reduced by 18%.

4.1 The government's economic policy

The government's economic policy has the following priorities:

— to reduce the tax burden of individuals and businesses;

— to increase public investments in education, R&D, infrastructure and hydroelectric energy production.

These measures will inject nearly $5.3 billion a year into the Québec economy.

❑ Tax relief

Easing the tax burden is an important aspect of this package of economic measures.

The government promised to reduce the personal income tax burden to the Canadian average.

The general tax reductions and the announced measures, such as child assistance, the work premium and the deduction for workers, will provide greater incentive to work and help offset the negative economic effects of population aging.

As regards corporations, several measures will make Québec businesses more competitive in facing growing international competition as well as make Québec more attractive for new investment. These measures include the plan to eliminate the tax on capital, the introduction of a 10% capital tax credit on manufacturing investments and the increase in capital cost allowance rates announced in the 2007-2008 Budget.

The government decided to eliminate the tax on capital and reduce personal income tax because reducing these taxes will have the greatest effect on economic growth.

❑ Public investment

Along with relieving the tax burden, the government promised to invest substantially in crucial areas for economic growth.

In keeping with that promise, the government will increase its post-secondary education spending to ensure that Québec will have a productive labour force to offset the large number of retirements foreseen in the coming years.

In addition, the government introduced the Québec Research and Innovation Strategy as well as major investment in public infrastructure.

Lastly, the Québec Energy Strategy 2006-2015 will contribute to hydroelectric power development and increased exports by Hydro-Québec.

4.2 A more prosperous society for all Quebecers

❑ A more prosperous society

The government's actions will have significant positive impacts on the principal macroeconomic variables, including labour productivity, employment and the GDP.

Thanks to the combined effects of these actions, real GDP will grow by 4.1% relative to the forecast level without them, adding roughly 0.25 percentage points to Québec's annual economic growth rate. This represents an ultimate increase in real GDP of over $11 billion.

In addition, the government's actions will spur investment and lead to the creation of nearly 47 000 new jobs. Labour productivity is expected to rise by nearly 3% over the projected level without these actions.

TABLE G.9

Impact of government action on the principal macroeconomic variables when fully implemented

Change	%	Millions of 2005 dollars
Real GDP	4.1	11 247
Investment	2.9	1 291
Capital stock	3.2	12 221
Jobs (thousands)	1.2	47
Real disposable income	4.7	7 840
Labour productivity	2.9	—

Source: General equilibrium model of the ministère des Finances du Québec.

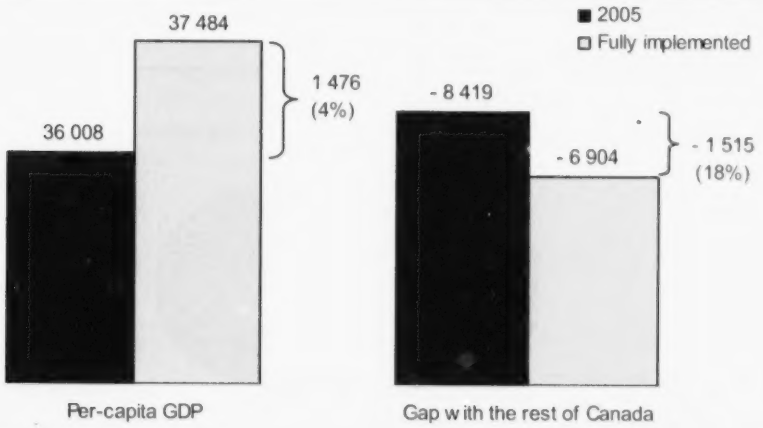
❑ Higher standard of living

This additional growth will give Quebecers a much higher standard of living and help narrow the wealth gap that continues to exist between Québec and the rest of Canada.

These government initiatives will thus reduce the gap between Québec's per-capita GDP and that of the rest of Canada by nearly 18%. This represents a per-capita gain of nearly $1 500.

CHART G.4

Impact of government policies on per-capita GDP and the gap with the rest of Canada
(2005 dollars)



Sources: General equilibrium model of the ministère des Finances du Québec and Statistics Canada's *Provincial Economic Accounts, Annual Estimates, 2005*.

❑ A complete range of policies for sustainable economic development

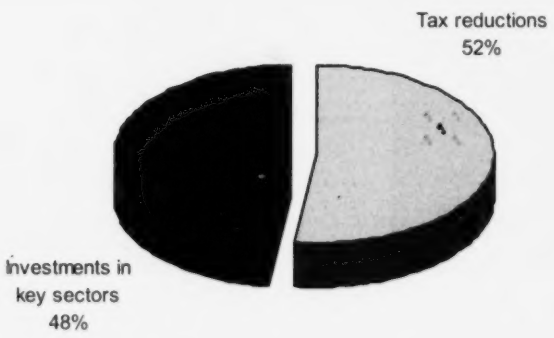
The government's actions set the stage for ensuring Québec's economic prosperity. That goal will be achieved by easing the personal and business tax burdens and investing in key sectors of economic activity.

In particular, the measures targeting corporations will make Québec businesses more competitive to face increasing global competition and enable them to drive economic growth and job creation.

Contribution of government actions

A breakdown of the total impact on real GDP shows that personal and corporate tax reductions contribute just over half the long-term growth in per-capita GDP. Investments in key economic sectors account for the other half.

Contributions to real per-capita GDP growth



Note: Personal and corporate tax reductions include the measures announced in the 2003-2004 to 2007-2008 budgets. Investments in key economic sectors include the increases in spending on post-secondary education and hydroelectric capacity, the Québec Research and Innovation Strategy and investment in public infrastructure.
Source: General equilibrium model of the ministère des Finances du Québec.

Section H

Report on the Application of the *Balanced Budget Act*

1. REQUIREMENTS OF THE ACT H.3

2. COMPLIANCE WITH THE REQUIREMENTS OF THE ACT H.5

1. REQUIREMENTS OF THE ACT

The *Balanced Budget Act* was adopted unanimously by the National Assembly of Québec on December 19, 1996.

This Act has since been amended on a few occasions in order to adapt it to the new budgetary context. It underwent major amendments in 2001 following the adoption of the *Act to establish a budgetary surplus reserve fund*, and was amended again in 2006 to take into account the *Act to reduce the debt and establish the Generations Fund*.

Essentially, the *Balanced Budget Act* stipulates that:

— the government must table a balanced budget;

— if the government records an overrun of less than $1 billion in relation to the budgetary balance[1] in a fiscal year, it must achieve a surplus equivalent to that overrun in the next fiscal year;

— the government may incur overruns of $1 billion or more as a result of exceptional circumstances, such as a disaster having a major impact on the budget, a significant deterioration of economic conditions or a change in federal transfer payment programs to Québec:

  — in such case, the government must offset these overruns over a maximum period of five years.

In addition, under section 15 of the Act,[2] the Minister of Finance is required to report in the Budget Speech on the application of the Act.

---

1 Sections 3, 4 and 5 of the *Act respecting the elimination of the deficit and a balanced budget* set a maximum deficit for fiscal years 1996-1997 to 1998-1999. These sections were repealed.

2 The first paragraph of section 15 stipulates that the Minister "shall report to the National Assembly in the Budget Speech on the objectives pursued by this Act, on the achievement of those objectives and on the variance recorded, if any."

2. COMPLIANCE WITH THE REQUIREMENTS OF THE ACT

The government achieved surpluses in certain years in relation to the objectives set by the Act.

Under section 9 of the Act,[3] deficits may be incurred up to the amount of surpluses accumulated.

As shown in the following table, accumulated surpluses were revised to $192 million at the end of fiscal 2005-2006, given the surplus of $37 million achieved that year.

In 2006-2007, the anticipated surplus of $29 million will increase accumulated surpluses to $221 million.

TABLE H.1

Surpluses accumulated from 1996-1997 to 2006-2007 under the *Balanced Budget Act*
(in millions of dollars)

Fiscal year	Deficits provided for in the Act	Surplus (deficit) disclosed in the *Public Accounts* for the fiscal years concerned	Surpluses (overruns)	Accumulated surpluses, end of year
1996-1997	– 3 275	– 3 217	58	58
1997-1998	– 2 200	– 2 192	8	66
1998-1999	– 1 200	126	1 326	1 392
1999-2000	–	30	30	1 422
2000-2001	–	427	427	1 849
2001-2002	–	22	22	1 871
2002-2003	–	– 694	– 694	1 177
2003-2004	–	– 358	– 358	819
2004-2005	–	– 664	– 664	155
2005-2006	–	37	37	192
2006-2007P	–	29	29	221

P: Preliminary results following the allocation of $1 300 million to the budgetary reserve.

3 Section 9 stipulates that "if the Government achieves a surplus in a fiscal year, it may incur overruns in subsequent fiscal years up to the amount of that surplus."

Section I

Report on the Application of the *Act to reduce the debt and establish the Generations Fund*

1. Requirements of the Act I.3
2. Generations Fund: $2 Billion Accumulated by March 2009 ..... I.5
3. An Additional Annual Contribution of $400 Million From Electricity Exports I.7
4. Nearly $42 Billion in 2026 for Debt Repayment I.9

1. REQUIREMENTS OF THE ACT

The *Act to reduce the debt and establish the Generations Fund* was adopted on June 15, 2006.

The purpose of the Act is to reduce the government's debt burden. To that end, it established the Generations Fund which, under section 3, is made up of sums derived from seven revenue sources dedicated exclusively to repaying the government's debt. These sources are:

— water-power royalties paid by Hydro-Québec and private producers of hydraulic power;

— a portion of Hydro-Québec's earnings on the sale of electricity outside Québec as a result of increased generating capacity;

— fees or charges for water withdrawal;

— the sale of government assets;

— gifts, legacies and other contributions received by the Minister of Finance;

— unclaimed property under the administration of the Minister of Revenue;

— income generated by the investment of the sums making up the fund.

The Act also allows the government to order that a part, which it establishes, of any sums it collects or receives and over which Parliament has the power of appropriation, is to be paid directly into the Generations Fund.

The sums making up the fund are managed by the Caisse de dépôt et placement du Québec.

Section 1 of the Act sets the government's debt reduction objectives. More specifically, the Act provides for the reduction of the debt as a percentage of GDP to less than:

— 38% not later than March 31, 2013;

— 32% not later than March 31, 2020;

— 25% not later than March 31, 2026.

Section 11 of the Act stipulates that the Minister of Finance must report to the National Assembly, in the Budget Speech, on the sums making up the fund and on any sums used to repay the government's debt.

2. Generations Fund: $2 Billion Accumulated by March 2009

In the March 2006 budget, the government estimated that the income of the Generations Fund would amount to $74 million in 2006-2007 and $390 million in 2007-2008.

The income of the Generations Fund has been revised upwards from last year's forecasts owing to additional deposits announced by the government:

— First, when the *Update on Québec's Economic and Financial Situation* was published in fall 2006, the government announced an additional deposit of $500 million in the Generations Fund in 2006-2007. This deposit stemmed from the gain arising from Hydro-Québec's sale of its interest in Transelec Chile.

— Second, this budget is announcing an additional deposit of $200 million in 2007-2008.

— And finally, the government promises to contribute an additional $400 million per year, on average, from 2010-2011 to 2025-2026.

These additional deposits will raise the amount accumulated in the Generations Fund to:

— $578 million as at March 31, 2007, or $504 million more than originally forecast;

— $1 231 million as at March 31, 2008, or $767 million more than originally forecast;

— $1 971 million as at March 31, 2009.

TABLE I.1

Generations Fund

(millions of dollars)

	March 2006 budget		May 2007 budget[P]		
	2006-2007	Revision	2006-2007	2007-2008	2008-2009
BALANCE, BEGINNING OF YEAR				**578**	**1 231**
DEDICATED REVENUE SOURCES					
Water-power royalties					
Hydro-Québec	64	– 4	60	325	535
Private producers	9	0	9	49	80
	73	– 4	69	374	615
Unclaimed property	0	5	5	20	20
Deposit arising from the sale of Hydro-Québec's interest in Transelec Chile[1]	0	500	500	0	0
Deposit from the budgetary reserve[1]				200	0
Investment income	1	3	4	59	105
Total	**74**	**504**	**578**	**653**	**740**
BALANCE, END OF YEAR	**74**	**504**	**578**	**1 231**	**1 971**

P Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Under section 4 of the Act.

3. An Additional Annual Contribution of $400 Million From Electricity Exports

With the 2007-2008 Budget, the government promises to deposit another $400 million per year, on average, in the Generations Fund between 2010-2011 and 2025-2026. These new contributions will come from Hydro-Québec's additional earnings on its electricity exports.

The primary mission of Hydro-Québec is to provide Quebecers with a sufficient energy supply, at the lowest possible cost, to support the economic and industrial development of all our regions.

In keeping with that mission, the government mandated Hydro-Québec to develop Québec's hydroelectric potential with a view to exporting surplus power.

The government plans on depositing the following sums from the additional earnings generated by the sale of surplus power in the Generations Fund:

— $325 million, on average, from 2010-2011 to 2014-2015;

— $400 million, on average, from 2015-2016 to 2019-2020;

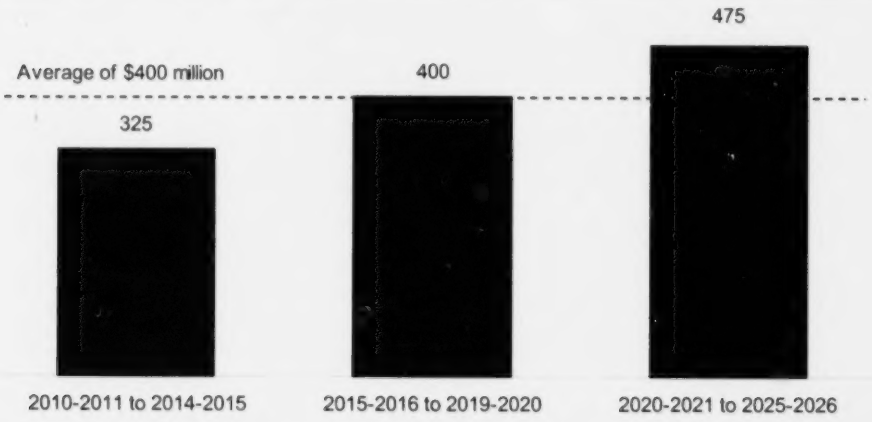
— $475 million, on average, from 2020-2021 to 2025-2026.

Export earnings can be increased between now and 2015 by developing new generating capacities. The government began boosting hydroelectric development in 2003, enabling Hydro-Québec to invest nearly $11 billion between 2004 and 2012.

As well, Québec's energy strategy will add a 4 500 MW block of power, 1 000 MW of which will be exported in the second half of the next decade.

CHART I.1

Additional earnings generated by Hydro-Québec's electricity exports and deposited in the Generations Fund[F]
(millions of dollars)



F: Forecasts

4. Nearly $42 Billion in 2026 for Debt Repayment

The additional contributions to the Generations Fund announced since last year will enable the government to dedicate a total of $11.6 billion to debt repayment by March 31, 2026.

By 2026, the amount accumulated in the Generations Fund will total $41.7 billion. This represents almost half of the debt accumulated over the last 30 years to fund current spending, estimated at $91.7 billion. This will be a significant step forward in restoring inter-generational equity.

TABLE I.2

Sums accumulated in the Generations Fund as at March 31, 2026
(billions of dollars)

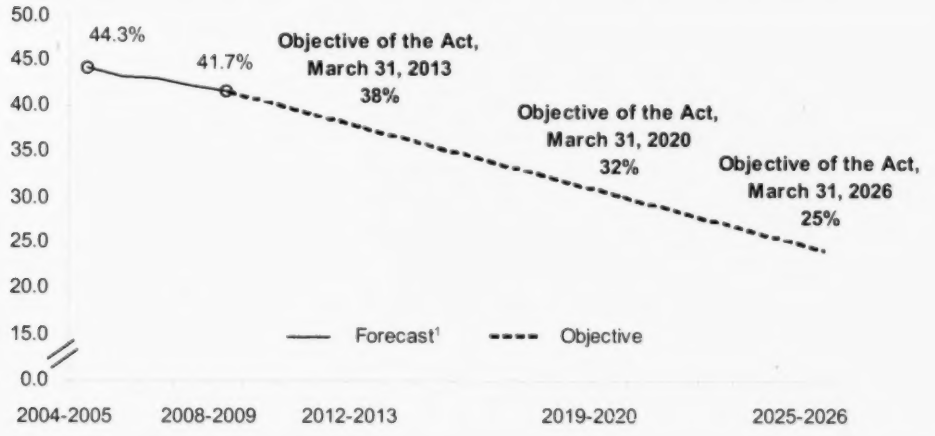
	Projected balance at March 31, 2026
2006-2007 BUDGET[1]	**30.1**
ADDITIONAL CONTRIBUTIONS	
Additional contribution in 2006-2007	0.5
Additional contribution in 2007-2008	0.2
Additional contributions from earnings on electricity exports	6.5
Subtotal	**7.2**
Investment income	4.4
TOTAL	**11.6**
2007-2008 BUDGET	**41.7**

1 Includes, in particular, revenue from unclaimed property.

The additional contributions to the Generations Fund bear witness to the government's determination to meet its debt reduction targets.

CHART I.2

Reduction in total government debt
(percent of GDP)



1 Real data for the years up to 2005-2006.

Section J

Additional Information
Historical Data

1. **ADDITIONAL INFORMATION** **J.3**

Summary of consolidated budgetary and financial transactions J.3

Revenue by source J.4

Expenditure by department J.5

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Consolidated financing transactions J.7

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Consolidated Revenue Fund J.9

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Change in net debt and accumulated deficits J.16

Change in debt service J.17

1. ADDITIONAL INFORMATION

TABLE J.1

Summary of consolidated budgetary and financial transactions[1]

(millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007P
BUDGETARY TRANSACTIONS OF THE CONSOLIDATED REVENUE FUND				
Own-source revenue	42 278[2]	44 381	45 743	49 290
Federal transfers[3]	9 370	9 229	9 969	11 015
Total	51 648	53 610	55 712	60 305
Program spending	– 45 339	– 47 656	– 49 229	– 51 769
Debt service	– 6 655	– 6 853	– 6 875	– 6 967
Total	– 51 994	– 54 509	– 56 104	– 58 736
NET RESULTS OF CONSOLIDATED ORGANIZATIONS	**346**	**235**	**429**	**260**
Exceptional losses of the SGF	**– 358**	—	—	—
Additional deposit in the Generations Fund[4]	—	—	—	**– 500**
Allocation to the budgetary reserve	—	—	—	**– 1 300**
CONSOLIDATED BUDGETARY BALANCE FOR THE PURPOSES OF THE *BALANCED BUDGET ACT*	**– 358**	**– 664**	**37**	**29**
Net results of the Generations Fund	—	—	—	**578**
CONSOLIDATED BUDGETARY BALANCE	**– 358**	**– 664**	**37**	**607**
CONSOLIDATED NON-BUDGETARY TRANSACTIONS				
Investments, loans and advances	– 1 125	– 979	– 1 182	– 2 165
Capital expenditures	– 1 019	– 1 083	– 1 166	– 1 394
Retirement plans	2 219	2 134	2 310	2 418
Other accounts	– 1 183	174	– 208	– 444
CONSOLIDATED NON-BUDGETARY REQUIREMENTS	**– 1 108**	**246**	**– 246**	**– 1 585**
CONSOLIDATED NET FINANCIAL REQUIREMENTS	**– 1 466**	**– 418**	**– 209**	**– 978**
CONSOLIDATED FINANCING TRANSACTIONS				
Change in cash position	2 316	– 831	49	– 3 428
Net borrowings	1 514	5 378	4 390	9 424
Retirement plans sinking fund[5]	– 2 364	– 4 129	– 4 230	– 4 440
Generations Fund	—	—	—	– 578
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	**1 466**	**418**	**209**	**978**

P: Preliminary results.

1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

2 Before the exceptional losses of the Société générale de financement du Québec.

3 Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

4 Additional deposit stemming from the sale of Hydro-Québec's interest in Transelec Chile.

5 This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.

TABLE J.2

Consolidated Revenue Fund
Revenue by source
(millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007[P]
OWN-SOURCE REVENUE				
Income and property taxes				
Personal income tax	15 715	16 324	16 449	18 136
Contributions to the Health Services Fund	4 649	4 874	5 047	5 075
Corporate taxes	3 892	4 253	4 786	4 796
Sub-total	24 256	25 451	26 282	28 007
Consumption taxes				
Retail sales	8 658	9 241	9 614	9 818
Fuel	1 685	1 711	1 657	1 680
Tobacco	889	901	752	668
Alcoholic beverages	409	403	415	422
Sub-total	11 641	12 256	12 438	12 588
Duties and permits				
Motor vehicles	707	713	725	746
Natural resources	108	238	210	70
Other	206	209	203	179
Sub-total	1 021	1 160	1 138	995
Miscellaneous				
Sales of goods and services	399	371	383	396
Interest	317	385	463	583
Fines, forfeitures and recoveries	471	442	485	492
Sub-total	1 187	1 168	1 331	1 471
Revenue from government enterprises				
Société des alcools du Québec	571	546	657	710
Loto-Québec	1 393	1 511	1 537	1 391
Hydro-Québec	2 049	2 140[1]	2 323	4 043[2]
Other	160	149[1]	37	85
Sub-total	4 173[3]	4 346	4 554	6 229
Total	**42 278[3]**	**44 381**	**45 743**	**49 290**
FEDERAL TRANSFERS[4]				
Equalization	4 065	5 221	4 798	5 539
Canada Health and Social Transfer	4 266	—	—	—
Health transfers	—	2 422	3 185	3 649
Transfers for post-secondary education and other social programs	—	926	1 034	1 070
Other programs	1 039	660	952	757
Total	**9 370**	**9 229**	**9 969**	**11 015**
TOTAL REVENUE	**51 648**	**53 610**	**55 712**	**60 305**

P: Preliminary results.
1 The exceptional gain of $265 million realized by Hydro-Québec in 2004-2005 on the sale of its interest in Noverco inc. was reclassified under "Other".
2 Including profits of $944 million made by Hydro-Québec on the sale of its interests in certain corporations.
3 Before the exceptional losses of the Société générale de financement du Québec.
4 Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

TABLE J.3

Consolidated Revenue Fund Expenditure by department

(millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007[P]
PROGRAM SPENDING[1]				
Affaires municipales et Régions	1 537	1 621	1 752	1 856
Agriculture, Pêcheries et Alimentation	661	661	657	693
Assemblée nationale	97	96	99	107
Conseil du trésor et Administration gouvernementale[2]	411	498	468	638
Conseil exécutif	195	241	232	233
Culture, Communications et Condition féminine	520	533	543	599
Développement durable, Environnement et Parcs	222	207	195	189
Développement économique, Innovation et Exportation	534	544	690	639
Éducation, Loisir et Sport[2]	11 568	11 874	12 280	12 752
Emploi et Solidarité sociale	4 198	4 110	4 038	4 085
Famille et Aînés	1 457	1 515	1 604	1 714
Finances (excluding debt service)	85	91	84	107
Immigration et Communautés culturelles	127	120	116	125
Justice	597	632	653	657
Persons designated by the National Assembly	93	58	58	130
Relations internationales	111	102	102	101
Ressources naturelles et Faune	419	365	401	397
Revenu	748	932	1 022	1 071
Santé et Services sociaux[2]	19 063	20 622	21 200	22 488
Sécurité publique	932	941	942	987
Services gouvernementaux	39	41	97	79
Tourisme	146	144	159	144
Transports	1 514	1 634	1 776	1 943
Travail	65	74	61	35
Total	**45 339**	**47 656**	**49 229**	**51 769**
DEBT SERVICE				
Direct debt service	3 913	4 066	4 044	4 324
Interest ascribed to the retirement plans	2 742	2 787	2 831	2 643
Total	**6 655**	**6 853**	**6 875**	**6 967**
TOTAL EXPENDITURE	**51 994**	**54 509**	**56 104**	**58 736**

P: Preliminary results.
1 Certain data were reclassified for consistency with those of the 2007-2008 Budget structure.
2 The funds set aside for pay equity were reclassified in each department.

TABLE J.4

Consolidated non-budgetary transactions

(millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007[P]
INVESTMENTS, LOANS AND ADVANCES				
▪ Consolidated Revenue Fund				
— Government enterprises				
• Shares and investments				
- Innovatech corporations	- 11	77	27	—
- Other	285	—	—	- 10
• Change in the equity value of investments	- 786	- 940	- 1 234	- 1 786
• Loans and advances				
- IQ FIER Inc.	—	—	- 45	- 42
- Other	—	—	—	- 8
Total government enterprises	- 512	- 863	- 1 252	- 1 846
— Individuals, corporations and others	19	69	- 232	100
— Municipalities and municipal bodies	5	2	1	2
Total Consolidated Revenue Fund	**- 488**	**- 792**	**- 1 483**	**- 1 744**
▪ Consolidated organizations	- 637	- 187	301	- 421
Total investments, loans and advances	**- 1 125**	**- 979**	**- 1 182**	**- 2 165**
CAPITAL EXPENDITURES				
▪ Consolidated Revenue Fund				
— Net investments	- 159	- 178	- 160	- 314
— Amortizations	200	217	215	228
▪ Consolidated organizations	- 1 060	- 1 122	- 1 221	- 1 308
Total capital expenditures	**- 1 019**	**- 1 083**	**- 1 166**	**- 1 394**
RETIREMENT PLANS				
▪ Contributions by the government as employer				
— Cost of credited service[1]	1 392	1 370	1 310	1 429
— Amortization of actuarial losses	226	226	372	380
Total government contribution	**1 618**	**1 596**	**1 682**	**1 809**
▪ Contributions by independent employers and participants	151	102	84	59
▪ Benefits, repayments and administrative expenses	- 3 154	- 3 278	- 3 517	- 3 533
▪ Interest on actuarial obligation	3 604	3 714	4 061	4 083
Total retirement plans	**2 219**	**2 134**	**2 310**	**2 418**
OTHER ACCOUNTS				
▪ Consolidated Revenue Fund	- 1 220	56	- 364	- 614
▪ Consolidated organizations	37	118	156	170
Total other accounts	**- 1 183**	**174**	**- 208**	**- 444**
TOTAL CONSOLIDATED NON-BUDGETARY TRANSACTIONS	**- 1 108**	**246**	**- 246**	**- 1 585**

P: Preliminary results.

1 Actuarial value of retirement benefits credited during the fiscal year, calculated according to the actuarial projected benefit method prorated on service.

TABLE J.5

Consolidated financing transactions[1]

(millions of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007[P]
CHANGE IN CASH POSITION				
Consolidated Revenue Fund	2 284	– 814	– 22	– 3 385
Consolidated organizations	32	– 17	71	– 43
Total	**2 316**	**– 831**	**49**	**– 3 428**
NET BORROWINGS				
Consolidated Revenue Fund				
— New borrowings	5 030	10 216	10 256	13 236
— Repayment of borrowings	– 4 798	– 5 811	– 6 130	– 5 154
Sub-total	232	4 405	4 126	8 082
Consolidated organizations				
— New borrowings	2 516	2 188	1 313	1 971
— Repayment of borrowings	– 1 234	– 1 215	– 1 049	– 629
Sub-total	1 282	973	264	1 342
Total	**1 514**	**5 378**	**4 390**	**9 424**
RETIREMENT PLANS SINKING FUND[2]	**– 2 364**	**– 4 129**	**– 4 230**	**– 4 440**
GENERATIONS FUND	—	—	—	**– 578**
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	**1 466**	**418**	**209**	**978**

P: Preliminary results.

1 A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

2 This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.

2. HISTORICAL DATA

TABLE J.6

Budgetary transactions
Consolidated Revenue Fund[1, 2]
(millions of dollars)

	Own-source revenue[3]	Federal transfers[4]	Total revenue	Program spending	Debt service	Total expenditure
Before reform of government accounting						
1970-1971	2 672	1 094	3 766	- 3 714	- 197	- 3 911
1971-1972	3 110	1 293	4 403	- 4 548	- 210	- 4 758
1972-1973	3 672	1 261	4 933	- 5 038	- 242	- 5 280
1973-1974	4 279	1 376	5 655	- 6 026	- 288	- 6 314
1974-1975	5 271	1 871	7 142	- 7 288	- 296	- 7 584
1975-1976	6 006	2 222	8 228	- 8 811	- 368	- 9 179
1976-1977	7 020	2 520	9 540	- 10 260	- 456	- 10 716
1977-1978	7 867	3 088	10 955	- 11 053	- 606	- 11 659
1978-1979	8 382	3 268	11 650	- 12 331	- 817	- 13 148
1979-1980	9 295	3 754	13 049	- 14 479	- 970	- 15 449
1980-1981	10 578	3 894	14 472	- 16 571	- 1 382	- 17 953
1981-1982	13 269	4 473	17 742	- 18 413	- 1 950	- 20 363
1982-1983	14 385	5 172	19 557	- 19 720	- 2 300	- 22 020
1983-1984	15 414	6 227	21 641	- 21 294	- 2 511	- 23 805
1984-1985	15 829	6 236	22 065	- 22 926	- 3 012	- 25 938
1985-1986	17 795	6 178	23 973	- 24 092	- 3 354	- 27 446
1986-1987	19 525	5 828	25 353	- 24 769	- 3 556	- 28 325
1987-1988	21 992	6 117	28 109	- 26 830	- 3 675	- 30 505
1988-1989	23 366	6 386	29 752	- 27 654	- 3 802	- 31 456
1989-1990	24 359	6 674	31 033	- 28 782	- 4 015	- 32 797
1990-1991	26 073	6 972	33 045	- 31 583	- 4 437	- 36 020
1991-1992	27 720	6 747	34 467	- 34 102	- 4 666	- 38 768
1992-1993	27 561	7 764	35 325	- 35 599	- 4 756	- 40 355
1993-1994	28 165	7 762	35 927	- 35 534	- 5 316	- 40 850
1994-1995	28 815	7 494	36 309	- 36 248	- 5 882	- 42 130
1995-1996	30 000	8 126	38 126	- 36 039	- 6 034	- 42 073
1996-1997	30 522	6 704	37 226	- 34 583	- 5 855	- 40 438
After reform of government accounting						
1997-1998	33 604	5 656	39 260	- 34 690	- 6 765	- 41 455
1998-1999	35 982	7 813	43 795	- 37 052	- 6 573	- 43 625
1999-2000	38 346	6 064	44 410	- 37 850	- 6 752	- 44 602
2000-2001	40 335	7 895	48 230	- 40 165	- 6 972	- 47 137
2001-2002	38 440[5]	8 885	47 325[5]	- 41 888	- 6 687	- 48 575
2002-2003	40 409[5]	8 932	49 341[5]	- 43 865	- 6 583	- 50 448
2003-2004	41 920[5]	9 370	51 290[5]	- 45 339	- 6 655	- 51 994
2004-2005	44 381	9 229	53 610	- 47 656	- 6 853	- 54 509
2005-2006	45 743	9 969	55 712	- 49 229	- 6 875	- 56 104
2006-2007[P]	49 290	11 015	60 305	- 51 769	- 6 967	- 58 736
2007-2008[P]	47 842	13 174	61 016	- 53 802	- 7 244	- 61 046
2008-2009[P]	48 152	13 117	61 269	- 55 393	- 7 158	- 62 551

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.
2 Data for the Consolidated Revenue Fund exclude the revenue and expenditure of specified purpose accounts, consolidated organizations and the Generations Fund presented in tables J.7, J.8 and J.9 respectively.
3 Own-source revenue of the Consolidated Revenue Fund includes revenue from government enterprises.
4 Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.
5 Own-source revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004.

TABLE J.7

Budgetary transactions
Specified purpose accounts [1]
(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before reform of government accounting							
1970-1971							
1971-1972							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
1984-1985							
1985-1986							
1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After reform of government accounting							
1997-1998	92	487	579	– 579	0	– 579	0
1998-1999	80	221	301	– 301	0	– 301	0
1999-2000	102	196	298	– 298	0	– 298	0
2000-2001	123	174	297	– 297	0	– 297	0
2001-2002	155	171	326	– 326	0	– 326	0
2002-2003	199	150	349	– 349	0	– 349	0
2003-2004	172	186	358	– 358	0	– 358	0
2004-2005	170	132	302	– 302	0	– 302	0
2005-2006	176	480	656	– 656	0	– 656	0
2006-2007[P]	201	265	466	– 466	0	– 466	0
2007-2008[P]	205	342	547	– 547	0	– 547	0
2008-2009[P]	207	311	518	– 518	0	– 518	0

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

TABLE J.8

Budgetary transactions
Consolidated organizations [1]

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before reform of government accounting							
1970-1971							
1971-1972							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
1984-1985							
1985-1986							
1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After reform of government accounting							
1997-1998	1 391	318	1 709	– 1 094	– 577	– 1 671	38
1998-1999	1 680	258	1 938	– 1 368	– 614	– 1 982	– 44
1999-2000	1 850	270	2 120	– 1 300	– 621	– 1 921	199
2000-2001	1 851	250	2 101	– 1 183	– 634	– 1 817	284
2001-2002	1 940	420	2 360	– 1 464	– 574	– 2 038	322
2002-2003	2 160	375	2 535	– 1 607	– 549	– 2 156	379
2003-2004	2 318	564	2 882	– 1 950	– 586	– 2 536	346
2004-2005	2 395	578	2 973	– 2 142	– 596	– 2 738	235
2005-2006	2 976	673	3 649	– 2 536	– 684	– 3 220	429
2006-2007[P]	2 733	759	3 492	– 2 504	– 728	– 3 232	260
2007-2008[P]	2 786	919	3 705	– 2 911	– 764	– 3 675	30
2008-2009[P]	2 993	772	3 765	– 2 709	– 874	– 3 583	182

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

TABLE J.9

Generations Fund

(millions of dollars)

	Dedicated revenues					
	Water-power royalties					
	Hydro-Québec	Private producers	Unclaimed property	Other	Investment income	Net results
Before reform of government accounting						
1970-1971						
1971-1972						
1972-1973						
1973-1974						
1974-1975						
1975-1976						
1976-1977						
1977-1978						
1978-1979						
1979-1980						
1980-1981						
1981-1982						
1982-1983						
1983-1984						
1984-1985						
1985-1986						
1986-1987						
1987-1988						
1988-1989						
1989-1990						
1990-1991						
1991-1992						
1992-1993						
1993-1994						
1994-1995						
1995-1996						
1996-1997						
After reform of government accounting						
1997-1998						
1998-1999						
1999-2000						
2000-2001						
2001-2002						
2002-2003						
2003-2004						
2004-2005						
2005-2006						
2006-2007[P]	60	9	5	500[1]	4	578
2007-2008[P]	325	49	20	200[2]	59	653
2008-2009[P]	535	80	20		105	740

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Additional deposit stemming from the sale of Hydro-Québec's interest in Transelec Chile.
2 Deposit from the budgetary reserve.

TABLE J.10

Summary of consolidated budgetary transactions [1]

(millions of dollars)

	Own-source revenue	Federal transfers [2]	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Deposits in the Generations Fund	Budgetary reserve	Surplus (deficit)	Net results of the Generations Fund	Consolidated budgetary balance
Before reform of government accounting											
1970-1971	2 672	1 094	3 766	- 3 714	- 197	- 3 911			- 145		- 145
1971-1972	3 110	1 293	4 403	- 4 548	- 210	- 4 758			- 355		- 355
1972-1973	3 672	1 261	4 933	- 5 038	- 242	- 5 280			- 347		- 347
1973-1974	4 279	1 376	5 655	- 6 026	- 288	- 6 314			- 659		- 659
1974-1975	5 271	1 871	7 142	- 7 288	- 296	- 7 584			- 442		- 442
1975-1976	6 006	2 222	8 228	- 8 811	- 368	- 9 179			- 951		- 951
1976-1977	7 020	2 520	9 540	- 10 260	- 456	- 10 716			- 1 176		- 1 176
1977-1978	7 867	3 088	10 955	- 11 053	- 606	- 11 659			- 704		- 704
1978-1979	8 382	3 268	11 650	- 12 331	- 817	- 13 148			- 1 498		- 1 498
1979-1980	9 295	3 754	13 049	- 14 479	- 970	- 15 449			- 2 400		- 2 400
1980-1981	10 578	3 894	14 472	- 16 571	- 1 382	- 17 953			- 3 481		- 3 481
1981-1982	13 269	4 473	17 742	- 18 413	- 1 950	- 20 363			- 2 621		- 2 621
1982-1983	14 385	5 172	19 557	- 19 720	- 2 300	- 22 020			- 2 463		- 2 463
1983-1984	15 414	6 227	21 641	- 21 294	- 2 511	- 23 805			- 2 164		- 2 164
1984-1985	15 829	6 236	22 065	- 22 926	- 3 012	- 25 938			- 3 873		- 3 873
1985-1986	17 795	6 178	23 973	- 24 092	- 3 354	- 27 446			- 3 473		- 3 473
1986-1987	19 525	5 828	25 353	- 24 769	- 3 556	- 28 325			- 2 972		- 2 972
1987-1988	21 992	6 117	28 109	- 26 830	- 3 675	- 30 505			- 2 396		- 2 396
1988-1989	23 366	6 386	29 752	- 27 654	- 3 802	- 31 456			- 1 704		- 1 704
1989-1990	24 359	6 674	31 033	- 28 782	- 4 015	- 32 797			- 1 764		- 1 764
1990-1991	26 073	6 972	33 045	- 31 583	- 4 437	- 36 020			- 2 975		- 2 975
1991-1992	27 720	6 747	34 467	- 34 102	- 4 666	- 38 768			- 4 301		- 4 301
1992-1993	27 561	7 764	35 325	- 35 599	- 4 756	- 40 355			- 5 030		- 5 030
1993-1994	28 165	7 762	35 927	- 35 534	- 5 316	- 40 850			- 4 923		- 4 923
1994-1995	28 815	7 494	36 309	- 36 248	- 5 882	- 42 130			- 5 821		- 5 821
1995-1996	30 000	8 126	38 126	- 36 039	- 6 034	- 42 073			- 3 947		- 3 947
1996-1997	30 522	6 704	37 226	- 34 583	- 5 855	- 40 438			- 3 212		- 3 212
After reform of government accounting											
1997-1998	35 087	6 461	41 548	- 36 363	- 7 342	- 43 705			- 2 157		- 2 157
1998-1999	37 742	8 292	46 034	- 38 721	- 7 187	- 45 908			126		126
1999-2000	40 298	6 530	46 828	- 39 448	- 7 373	- 46 821			7		7
2000-2001	42 309	8 319	50 628	- 41 645	- 7 606	- 49 251		- 950	427		427
2001-2002	40 535 [3]	9 476	50 011 [3]	- 43 678	- 7 261	- 50 939		950	22		22
2002-2003	42 768 [3]	9 457	52 225 [3]	- 45 821	- 7 132	- 52 953			- 728		- 728
2003-2004	44 410 [3]	10 120	54 530 [3]	- 47 647	- 7 241	- 54 888			- 358		- 358
2004-2005	46 946	9 939	56 885	- 50 100	- 7 449	- 57 549			- 664		- 664
2005-2006	48 895	11 122	60 017	- 52 421	- 7 559	- 59 980			37		37
2006-2007[P]	52 224	12 039	64 263	- 54 739	- 7 695	- 62 434	- 500	- 1 300	29	578	607
2007-2008[P]	50 833	14 435	65 268	- 57 260	- 8 008	- 65 268	- 200	200	0	653	653
2008-2009[P]	51 352	14 200	65 552	- 58 620	- 8 032	- 66 652		1 100	0	740	740

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

2 Federal transfers are presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

3 Own-source revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004.

TABLE J.11

Summary of consolidated non-budgetary transactions[1]

(millions of dollars)

		Consolidated non-budgetary transactions					
	Consolidated budgetary balance	Investments, loans and advances	Capital expenditures	Retirement plans	Other accounts	Excess amount (shortfall)	Net financial surplus (requirements)
Before reform of government accounting							
1970-1971	– 145	– 73		2	26	– 45	– 190
1971-1972	– 355	– 63		1	113	51	– 304
1972-1973	– 347	– 53		– 1	18	– 36	– 383
1973-1974	– 659	– 122		25	459	362	– 297
1974-1975	– 442	– 146		104	319	277	– 165
1975-1976	– 951	– 186		109	622	545	– 406
1976-1977	– 1 176	– 183		187	– 161	– 157	– 1 333
1977-1978	– 704	– 229		265	– 488	– 452	– 1 156
1978-1979	– 1 498	– 189		316	119	246	– 1 252
1979-1980	– 2 400	– 188		683	551	1 046	– 1 354
1980-1981	– 3 481	– 56		822	416	1 182	– 2 299
1981-1982	– 2 621	– 586		1 007	71	492	– 2 129
1982-1983	– 2 463	– 761		1 051	– 40	250	– 2 213
1983-1984	– 2 164	– 672		1 057	– 436	– 51	– 2 215
1984-1985	– 3 873	– 167		1 183	887	1 903	– 1 970
1985-1986	– 3 473	40		1 269	493	1 802	– 1 671
1986-1987	– 2 972	– 380		1 355	260	1 235	– 1 737
1987-1988	– 2 396	– 680		2 203	– 493	1 030	– 1 366
1988-1989	– 1 704	– 670		1 634	– 265	699	– 1 005
1989-1990	– 1 764	– 516		1 164	300	948	– 816
1990-1991	– 2 975	– 458		1 874	77	1 493	– 1 482
1991-1992	– 4 301	– 411		1 916	141	1 646	– 2 655
1992-1993	– 5 030	– 490		1 525	82	1 117	– 3 913
1993-1994	– 4 923	– 623		1 668	52	1 097	– 3 826
1994-1995	– 5 821	– 1 142		1 509	578	945	– 4 876
1995-1996	– 3 947	– 287		1 701	– 415	999	– 2 948
1996-1997	– 3 212	– 792		1 928	– 60	1 076	– 2 136
After reform of government accounting							
1997-1998	– 2 157	– 1 315	– 209	1 888	109	473	– 1 684
1998-1999	126	– 1 402	– 217	1 020	996	397	523
1999-2000	7	– 2 006	– 359	1 740	1 328	703	710
2000-2001	427	– 1 632	– 473	1 793	– 631	– 943	– 516
2001-2002	22	– 1 142	– 995	2 089	– 589	– 637	– 615
2002-2003	– 728	– 1 651	– 1 482	2 007	217	– 909	– 1 637
2003-2004	– 358	– 1 125	– 1 019	2 219	– 1 183	– 1 108	– 1 466
2004-2005	– 664	– 979	– 1 083	2 134	174	246	– 418
2005-2006	37	– 1 182	– 1 166	2 310	– 208	– 246	– 209
2006-2007[P]	607	– 2 165	– 1 394	2 418	– 444	– 1 585	– 978
2007-2008[P]	653	– 1 527	– 1 980	2 129	287	– 1 091	– 438
2008-2009[P]	740	– 1 533	– 1 288	2 095	– 246	– 972	– 232

P: Preliminary results for 2006-2007 and forecasts for subsequent years.

1 A negative entry indicates a financial requirement and a positive entry, a source of financing.

TABLE J.12

Change in total debt

	Consolidated direct debt[1, 2]		Retirement plans						Less: Generations Fund	Total debt[2]	
			Retirement plans liability		Less: retirement plans sinking fund		Net retirement plans liability				
	$M	As a % of GDP	$M	As a % of GDP	$M	As a % of GDP	$M	As a % of GDP	$M	$M	As a % of GDP
Before reform of government accounting											
1970-1971	2 478	10.9								2 478	10.9
1971-1972	2 920	11.9								2 920	11.9
1972-1973	3 309	12.0								3 309	12.0
1973-1974	3 679	11.8								3 679	11.8
1974-1975	4 030	11.0					67	0.2		4 097	11.2
1975-1976	4 955	12.0					179	0.4		5 134	12.4
1976-1977	6 035	12.5					354	0.7		6 389	13.2
1977-1978	7 111	13.4					620	1.2		7 731	14.6
1978-1979	8 325	14.1					915	1.6		9 240	15.7
1979-1980	9 472	14.4					1 598	2.4		11 070	16.8
1980-1981	12 247	16.8					2 420	3.3		14 667	20.1
1981-1982	14 184	17.6					3 428	4.3		17 612	21.9
1982-1983	16 485	19.3					4 489	5.3		20 974	24.6
1983-1984	18 880	20.6					5 545	6.0		24 425	26.6
1984-1985	21 216	21.2					6 729	6.7		27 945	27.9
1985-1986	23 633	22.0					7 998	7.4		31 631	29.4
1986-1987	25 606	21.9					9 353	8.0		34 959	29.9
1987-1988	26 819	20.9					10 883	8.5		37 702	29.4
1988-1989	27 091	19.2					12 597	8.9		39 688	28.1
1989-1990	27 699	18.7					14 320	9.6		42 019	28.3
1990-1991	29 637	19.3					16 227	10.6		45 864	29.9
1991-1992	33 106	21.3					18 143	11.7		51 249	33.0
1992-1993	39 231	24.8					19 668	12.4		58 899	37.2
1993-1994	45 160	27.8	21 337	13.1	– 854	– 0.5	20 483	12.6		65 643	40.4
1994-1995	52 468	30.8	22 846	13.4	– 849	– 0.5	21 997	12.9		74 465	43.7
1995-1996	52 886	29.8	24 547	13.8	– 923	– 0.5	23 624	13.3		76 510	43.1
1996-1997	52 625	29.2	26 475	14.7	– 1 014	– 0.6	25 461	14.1		78 086	43.3
After reform of government accounting											
1997-1998	57 947	30.7	41 617	22.1	– 1 179	– 0.6	40 438	21.5		98 385	52.2
1998-1999	60 685	30.9	42 637	21.7	– 2 209	– 1.1	40 428	20.6		101 113	51.5
1999-2000	62 783	29.7	44 377	21.1	– 5 040	– 2.4	39 337	18.7		102 120	48.4
2000-2001	65 737	29.2	46 170	20.5	– 7 059	– 3.1	39 111	17.4		104 848	46.6
2001-2002	69 115	29.9	48 259	20.8	– 10 199	– 4.4	38 060	16.4		107 175	46.3
2002-2003	72 916	30.2	50 266	20.8	– 11 840	– 4.9	38 426	15.9		111 342	46.1
2003-2004	76 444	30.5	52 485	21.0	– 14 204	– 5.7	38 281	15.3		114 725	45.8
2004-2005	80 310	30.5	54 619	20.8	– 18 333	– 7.0	36 286	13.8		116 596	44.3
2005-2006	83 672	30.5	57 193	20.9	– 22 563	– 8.2	34 630	12.7		118 302	43.2
2006-2007[P]	90 383	31.8	59 611	21.0	– 27 003	– 9.5	32 608	11.5	– 578	122 413	43.1
2007-2008[P]	96 589	32.6	61 740	20.8	– 31 879	– 10.7	29 861	10.1	– 1 231	125 219	42.3
2008-2009[P]	103 132	33.6	63 835	20.8	– 37 213	– 12.1	26 622	8.7	– 1 971	127 783	41.7

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Excluding deferred foreign exchange gains or losses.
2 Excluding pre-financing.

TABLE J.13

Change in net debt and accumulated deficits

	Total debt[2]		Financial assets net of other liabilities[1]			Net debt		Capital expenditures		Debt representing accumulated deficits[3]	
			Including pre-financing	Less: pre-financing	Excluding pre-financing						
	$M	As a % of GDP	$M	$M	$M	$M	As a % of GDP	$M	As a % of GDP	$M	As a % of GDP
Before reform of government accounting											
1970-1971	2 478	10.9	188		188	2 290	10.1			2 290	10.1
1971-1972	2 920	11.9	275		275	2 645	10.8			2 645	10.8
1972-1973	3 309	12.0	317		317	2 992	10.9			2 992	10.9
1973-1974	3 679	11.8	28		28	3 651	11.7			3 651	11.7
1974-1975	4 097	11.2	4		4	4 093	11.2			4 093	11.2
1975-1976	5 134	12.4	90		90	5 044	12.2			5 044	12.2
1976-1977	6 389	13.2	36		36	6 353	13.2			6 353	13.2
1977-1978	7 731	14.6	673		673	7 058	13.3			7 058	13.3
1978-1979	9 240	15.7	780		780	8 460	14.4			8 460	14.4
1979-1980	11 070	16.8	234		234	10 836	16.5			10 836	16.5
1980-1981	14 667	20.1	341		341	14 326	19.6			14 326	19.6
1981-1982	17 612	21.9	5 043		5 043	12 569	15.6			12 569	15.6
1982-1983	20 974	24.6	5 936		5 936	15 038	17.6			15 038	17.6
1983-1984	24 425	26.6	7 127		7 127	17 298	18.8			17 298	18.8
1984-1985	27 945	27.9	6 490		6 490	21 455	21.4			21 455	21.4
1985-1986	31 631	29.4	5 896		5 896	25 735	24.0			25 735	24.0
1986-1987	34 959	29.9	6 243		6 243	28 716	24.5			28 716	24.5
1987-1988	37 702	29.4	6 587		6 587	31 115	24.2			31 115	24.2
1988-1989	39 688	28.1	6 869		6 869	32 819	23.3			32 819	23.3
1989-1990	42 019	28.3	7 436		7 436	34 583	23.3			34 583	23.3
1990-1991	45 864	29.9	8 306		8 306	37 558	24.5			37 558	24.5
1991-1992	51 249	33.0	9 364		9 364	41 885	27.0			41 885	27.0
1992-1993	58 899	37.2	11 985		11 985	46 914	29.6			46 914	29.6
1993-1994	65 643	40.4	13 806		13 806	51 837	32.0			51 837	32.0
1994-1995	74 465	43.7	16 788		16 788	57 677	33.8			57 677	33.8
1995-1996	76 510	43.1	14 886		14 886	61 624	34.8			61 624	34.8
1996-1997	78 086	43.3	13 253		13 253	64 833	35.9			64 833	35.9
After reform of government accounting											
1997-1998	98 385	52.2	9 788	—	9 788	88 597	47.0	6 016	3.2	82 581	43.8
1998-1999	101 113	51.5	15 134	2 831	12 303	88 810	45.3	6 233	3.2	82 577	42.1
1999-2000	102 120	48.4	13 464	506	12 958	89 162	42.3	6 693	3.2	82 469	39.1
2000-2001	104 848	46.6	17 165[4]	1 475	15 690	89 158	39.6	7 166	3.2	81 992[4]	36.5
2001-2002	107 175	46.3	15 557	1 154	14 403	92 772	40.1	8 234	3.6	84 538	36.5
2002-2003	111 342	46.1	19 873	4 132	15 741	95 601	39.6	9 716	4.0	85 885	35.6
2003-2004	114 725	45.8	19 548	1 848	17 700	97 025	38.7	10 735	4.3	86 290	34.4
2004-2005	116 596	44.3	20 216	2 662	17 554	99 042	37.7	11 818	4.5	87 224	33.2
2005-2006	118 302	43.2	16 303	2 684	13 619	104 683	38.3	12 984	4.7	91 699[5]	33.5
2006-2007[P]	122 413	43.1	22 434[6]	6 069	16 365	106 048	37.3	14 378	5.1	91 670[6]	32.3
2007-2008[P]	125 219	42.3	17 191	—	17 191	108 028	36.5	16 358	5.5	91 670	30.9
2008-2009[P]	127 783	41.7	18 467	—	18 467	109 316	35.7	17 646	5.8	91 670	29.9

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Including deferred foreign exchange gains or losses.
2 Excluding pre-financing.
3 Including various accounting restatements that have not undergone a surplus (deficit) adjustment for previous years.
4 Including $950 million placed in reserve.
5 The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.
6 Including $1 300 million placed in reserve.

TABLE J.14

Change in debt service

	Consolidated Revenue Fund	Interest ascribed to the retirement plans [1]	Consolidated organizations	Total debt service	
	$M	$M	$M	$M	As a % of budgetary revenue
Before reform of government accounting					
1970-1971	197			197	5.2
1971-1972	210			210	4.8
1972-1973	242			242	4.9
1973-1974	288			288	5.1
1974-1975	296			296	4.1
1975-1976	368			368	4.5
1976-1977	456			456	4.8
1977-1978	606			606	5.5
1978-1979	763	54		817	7.0
1979-1980	882	88		970	7.4
1980-1981	1 217	165		1 382	9.5
1981-1982	1 686	264		1 950	11.0
1982-1983	1 921	379		2 300	11.8
1983-1984	2 031	480		2 511	11.6
1984-1985	2 414	598		3 012	13.7
1985-1986	2 648	706		3 354	14.0
1986-1987	2 754	802		3 556	14.0
1987-1988	2 751	924		3 675	13.1
1988-1989	2 665	1 137		3 802	12.8
1989-1990	2 829	1 186		4 015	12.9
1990-1991	3 026	1 411		4 437	13.4
1991-1992	3 222	1 444		4 666	13.5
1992-1993	3 475	1 281		4 756	13.5
1993-1994	3 750	1 566		5 316	14.8
1994-1995	4 333	1 549		5 882	16.2
1995-1996	4 287	1 747		6 034	15.8
1996-1997	3 906	1 949		5 855	15.7
After reform of government accounting					
1997-1998	3 800	2 965	577	7 342	17.7
1998-1999	4 159	2 414	614	7 187	15.6
1999-2000	4 120	2 632	621	7 373	15.7
2000-2001	4 378	2 594	634	7 606	15.0
2001-2002	3 970	2 717	574	7 261	14.5
2002-2003	3 935	2 648	549	7 132	13.7
2003-2004	3 913	2 742	586	7 241	13.3
2004-2005	4 066	2 787	596	7 449	13.1
2005-2006	4 044	2 831	684	7 559	12.6
2006-2007P	4 324	2 643	728	7 695	12.0
2007-2008P	4 923	2 321	764	8 008	12.3
2008-2009P	5 182	1 976	874	8 032	12.3

P: Preliminary results for 2006-2007 and forecasts for subsequent years.
1 Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the retirement plans sinking fund.

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